MDC
COMMUNICATIONS

delivering **results**

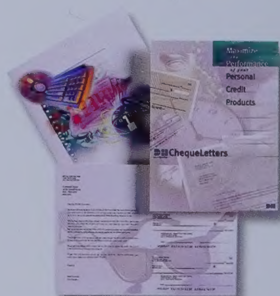
MDC COMMUNICATIONS CORPORATION 1998 ANNUAL REPORT

Corporate Profile

MDC COMMUNICATIONS CORPORATION is a publicly traded international organization with operating units in Canada, the United States, the United Kingdom, and Australia. We are a leading provider of secure transaction products and services, and communications and marketing services, to customers in more than 65 countries.

The Secure Transaction Products and Services division provides security-sensitive transaction products and services in four business segments: personalized transaction products, such as cheques, corporate payables, and credit, debit, and smart cards; secure ticketing products, such as airline, transit, and event tickets; stamps, both postal and excise; and business and technology services, such as remittance processing, data-imaged communications, and statement processing and fulfillment.

The Communications and Marketing Services division provides services in three key segments of marketing communications: advertising and promotion, corporate communications and public relations, and branding and consultancy. Within these segments we have developed expertise in niche markets including health care, financial services, agribusiness and technology.



MDC Class A subordinate voting shares are traded on The Toronto Stock Exchange in Canada under the symbol MDZ.A and on the NASDAQ National Market under the symbol MDCA. This Annual Report and other shareholder information are available on-line at: **www.mdccorp.com**

Performance

Consolidated Financial Summary

For the year ended December 31

(in thousands of Canadian dollars except per share amounts)	**1998**	1997	% Change
Sales	**476,727**	280,020	+ 70
Operating income	**78,644**	35,646	+ 121
Cash flow from continuing operations	**45,072**	22,432	+ 101
Income from continuing operations	**14,108**	7,781	+ 81
Income (loss) from discontinued operations	**—**	(28,618)	+ 100
Net income (loss)	**14,108**	(20,837)	+ 168
Earnings per share (EPS)			
Continuing operations			
Basic	**0.93**	0.50	+ 86
Fully diluted	**0.88**	0.49	+ 80
Reported			
Basic	**0.93**	(1.82)	+ 151
Fully diluted	**0.88**	(1.82)	+ 148
Cash flow per share (CPS)			
Continuing operations			
Basic	**3.25**	1.69	+ 92
Fully diluted	**2.64**	1.41	+ 87

For the fourth quarter ended December 31

(in thousands of Canadian dollars except per share amounts)	**1998**	1997	% Change
Sales	**132,872**	77,796	+ 71
Operating income	**24,353**	10,014	+ 143
Cash flow from continuing operations	**14,461**	6,660	+ 117
Income from continuing operations	**4,402**	2,209	+ 99
Income (loss) from discontinued operations	**—**	(11,680)	+ 100
Net income	**4,402**	(9,471)	+ 146
Earnings per share (EPS)			
Continuing operations			
Basic	**0.26**	0.15	+ 73
Fully diluted	**0.26**	0.15	+ 73
Reported			
Basic	**0.26**	(0.80)	+ 133
Fully diluted	**0.26**	(0.80)	+ 133
Cash flow per share (CPS)			
Continuing operations			
Basic	**0.90**	0.47	+ 91
Fully diluted	**0.61**	0.39	+ 56

Condensed Consolidated Balance Sheet

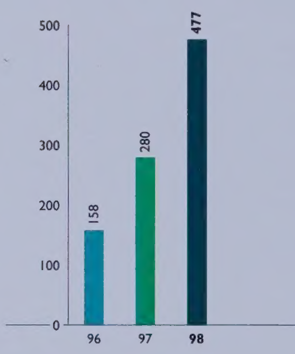
As at December 31

(in thousands of Canadian dollars)	**1998**	1997	% Change
Cash and short-term investments	**20,157**	10,793	+ 87
Other current assets	**174,301**	119,805	+ 45
Other assets	**545,555**	286,911	+ 90
Total assets	**740,013**	417,509	+ 77
Current liabilities	**149,647**	92,668	+ 61
Long-term indebtedness	**388,711**	205,634	+ 89
Minority interest	**3,511**	2,039	+ 72
Shareholders' equity	**198,144**	117,168	+ 69
Total liabilities and shareholders' equity	**740,013**	417,509	+ 77

Objectives & Results

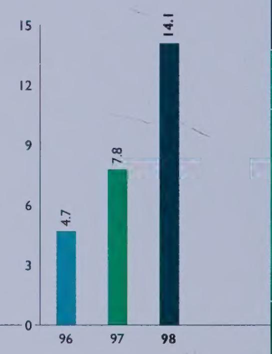
Results from continuing operations displayed strong growth in sales, operating income, and earnings per share.

SALES
(Continuing Operations)
(in millions of dollars)



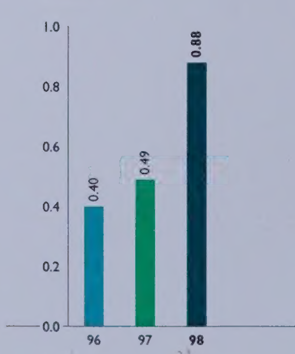
Sales from continuing operations grew by 70% to $477 million, up from $280 million in 1997.

INCOME
(Continuing Operations)
(in millions of dollars)



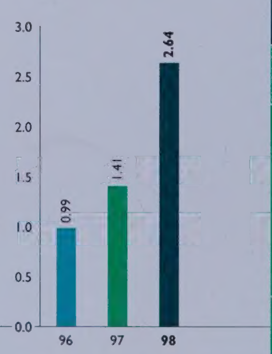
Consistent with the increase in sales, net income from continuing operations was up 81% to $14.1 million in 1998, up from $7.8 million in 1997.

FULLY DILUTED EARNINGS PER SHARE
(Continuing Operations)
(in dollars)



Fully diluted earnings per share from continuing operations increased 80% in 1998 to $.88 from $.49 in 1997.

FULLY DILUTED CASH FLOW PER SHARE
(Continuing Operations)
(in dollars)



Fully diluted cash flow per share from continuing operations increased in 1998 by 87% to $2.64, up from $1.41 in 1997.

1998 Objectives

To increase shareholder value by improving the stability and growth of our earnings and cash flow.

To ensure customer satisfaction in the fulfillment of the contracts we won in 1997.

To increase our market share and develop new business opportunities in the Secure Transaction Products and Services division.

To enhance profitability in the Secure Transaction Products and Services division through continued improvement in the average value of an order and cost-management initiatives.

To substantially build the revenue and profitability of the Communications and Marketing Services division.

To divest Regal Greetings & Gifts in a way that maximizes shareholder value.

1998 Results

Fully diluted earnings per share from continuing operations for 1998 increased by 80% from $0.49 in 1997 to $0.88. Consolidated sales grew by 70%. Our capital base was strengthened with major bond and equity issues and a substantial increase in our bank facility.

Our Secure Transaction Products and Services division successfully fulfilled major contracts in the cheque, card, stamp, and ticketing businesses while maintaining high standards of service.

We increased our market share in all categories through a combination of targeted acquisitions and strong internal growth.

In all our businesses, particularly our cheque and stamp operations, we increased efficiencies and profits dramatically through improved cost management and by absorbing higher levels of production.

Strategic acquisitions in the Communications and Marketing Services division significantly increased revenues and contributed to strong earnings growth.

New management restructured Regal Greetings & Gifts, improving its product and service offerings to prepare it for divestiture in a way that maximizes shareholder value.

1999 Objectives

- To increase shareholder value by improving fully diluted earnings per share and reducing our debt-to-equity ratio.
- To focus on growth markets such as U.S. direct-to-consumer cheques, event ticketing, transaction outsourcing, and card services.
- To develop emerging technology opportunities such as Internet businesses and e-commerce through internal investment and acquisitions.
- To continue building revenue and profitability in our Communications and Marketing Services division in anticipation of an initial public offering.
- To divest Regal Greetings & Gifts in a way that maximizes shareholder value.

Miles S. Nadal
PRESIDENT & CHIEF EXECUTIVE OFFICER

"Both of our divisions—Secure Transaction Products and Services and Communications and Marketing Services—continue to have excellent growth potential. Both are high-margin businesses. Both rely on a high degree of service. Both are benefiting from the consolidation of fragmented markets. Our strategy is working. We intend to continue our aggressive growth."

IN 1998 MDC DELIVERED RESOUNDINGLY ON OUR THREE PRIME OBJECTIVES: vigorous growth, improved earnings, and the strengthening of our position for the future.

Our sales of $477 million represent a 70% increase over 1997. Operating income improved by 121% from $36 million to $79 million. Fully diluted earnings per share grew by 80% from $0.49 to $0.88.

As a company that has always augmented internal growth with a prudent but aggressive acquisition strategy, we supported our goals in 1998 by raising substantial capital, including a US$75-million bond issue and a CDN$48-million equity issue, and by increasing our bank facility to US$150 million.

We improved our operating margins and exceeded our performance targets, stimulating an increase in the price of MDC shares. From its low in the fourth quarter of 1997 to the pricing of our equity issue in the fourth quarter of 1998, the value of an MDC share increased by 84%, from $7.60 to $14.00.

Most importantly, we are well positioned to implement our plans going forward. Our strategy is twofold: first, to leverage growth within our Secure Transaction Products and Services division while aggressively pursuing additional opportunities in complementary technology-based markets; and second, to unlock the shareholder value of our Communications and Marketing Services division, likely through an initial public offering.

In both cases, we remain intent on achieving rapid growth both internally and through acquisition. We will continue to seek companies that fit our acquisition criteria while investing in the expansion of our existing businesses.

In our cheque and card businesses we made exceptional progress in 1998 with the acquisitions of the Canadian cheque and card units of Quebecor and three U.S. direct-to-consumer cheque businesses, Artistic Checks, Custom Direct, and Styles Checks. We thereby solidified our No. 1 position in the Canadian cheque market and moved into the No. 2 share position in both the U.S. direct-to-consumer cheque and Canadian card services markets. In 1999, we will continue to consolidate these growing markets and improve our operating efficiencies to further enhance profitability.

MDC's new Business and Technology Services company, Optus Corporation, is a prime example of our commitment to expand existing customer relationships through the use of new technologies. During 1998, we equipped the company with advanced systems for customized, high-speed electronic printing and remittance processing and hired an exceptional team of industry veterans. Optus is now well positioned to capitalize on the trend among large corporations to outsource non-core, back-office functions.

MDC's Communications and Marketing Services division, recently renamed Maxxcom Inc., increased sales by $35 million to $102 million in 1998. Consistent with our strategy to build critical mass in the United States, we acquired three successful U.S. companies within the market niches we are targeting. In advance of a planned initial public offering, we intend to pursue further acquisitions in the U.S., Canada, and Europe.

The admirable progress made by all our businesses in 1998 reflects the tremendous efforts of our dedicated employees. Together, we are growing and developing a company that provides high-quality products and services and delivers customer-focused solutions. By listening to our customers and paying attention to the opportunities in the marketplace, MDC is positioned for an extremely promising future.

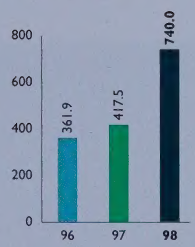
Miles S. Nadal

Miles S. Nadal

PRESIDENT & CHIEF EXECUTIVE OFFICER

ASSETS

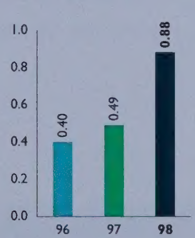
(in millions of dollars)



Assets grew by 77% to $740.0 million, up from $417.5 million.

FULLY DILUTED EARNINGS PER SHARE (Continuing Operations)

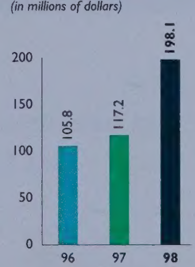
(in dollars)



Fully diluted earnings per share from continuing operations increased 80% in 1998 to $.88 from $.49 in 1997.

SHAREHOLDERS' EQUITY

(in millions of dollars)



Shareholders' equity increased by 69% to $198.1 million in 1998, up from $117.2 million in 1997.

1998 Delivering Results

PAGE 8

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We increased shareholder value substantially.

PAGE 10

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We delivered excellent growth and predictable profits.

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Our U.S. direct-to-consumer cheque operation more than tripled its revenues while establishing a strong No. 2 market share position.

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We established the Business and Technology Services group to serve the growing outsourcing market.

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Our stamp business dramatically increased revenue and profits.

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PAGE 9

We achieved our revenue and profit projections.

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PAGE 12

We increased revenues and profits in our Canadian cheque business and reinforced our No. 1 market position.

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We more than doubled the size of our Canadian card services business, and now hold the No. 2 market share position in both Canada and Australia.

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Our ticketing business achieved an internal growth rate of 15%.

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Our Communications and Marketing Services division made strategic acquisitions in preparation for an initial public offering.

We increased shareholder value substantially.

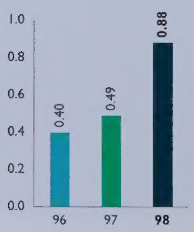
"Our acquisitions team has proven itself able to identify and complete acquisitions that fit MDC's corporate strategy and provide the greatest possible benefit to MDC shareholders. Our purchase of Custom Cheques is a case in point. With one deal, we strengthened three of our businesses under attractive financial terms."

Peter Lewis EXECUTIVE VICE-PRESIDENT & CHIEF FINANCIAL OFFICER

1998 PLAN

Our objective for 1998 was to increase shareholder value by improving the stability and growth of our earnings and cash flow. A key goal was to complete our acquisitions program utilizing a prudent mix of long-term debt and equity financing that would also give us the capital strength to attain the next stage of our planned growth.

FULLY DILUTED EARNINGS PER SHARE (Continuing Operations)
(in dollars)



DELIVERY

Fully diluted earnings per share from continuing operations for 1998 increased by 80% from $0.49 in 1997 to $0.88 in 1998. Fully diluted cash flow per share from continuing operations grew by 87% from $1.41 to $2.64. The company strengthened its capital base significantly through a US$75-million bond issue and a CDN$48-million equity issue. Furthermore, our bank facility was increased from US$75 million to US$150 million. MDC's share price grew accordingly.

1999 PLAN

We intend to continue to focus on improving earnings and cash flow and the company's debt-to-equity ratio. Our goal is to move closer to a 1:1 ratio over the next two years through a combination of our planned divestiture of Regal Greetings & Gifts and an initial public offering of Maxxcom Inc., our Communications and Marketing Services division.

"MDC was able to raise capital because of demonstrated financial performance, successful acquisitions, and a proven track record for executing its plans. In 1998, MDC completed financings generating financial resources of more than $400 million."

Walter Campbell SENIOR VICE-PRESIDENT, FINANCE

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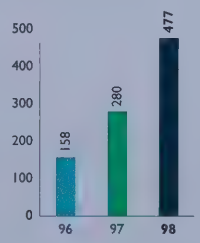
We achieved our revenue and profit projections.

BACKGROUND

Through an aggressive but focused acquisition strategy, combined with consistent internal growth, MDC has increased revenues fifteenfold in five years from approximately $32 million in 1993 to more than $477 million in 1998.

SALES
(in millions of dollars)



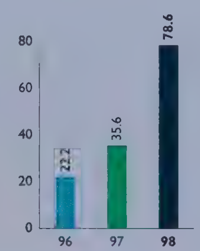
1998 PLAN

During 1998, our intention was to increase revenues and profits by 60% through both acquisition and internal growth.

DELIVERY

In each quarter of 1998, we exceeded our revenue and profit projections. Revenues for the year were up by 70% from $280 million to $477 million. Operating income more than doubled to $79 million from $36 million in 1997. Fully diluted earnings per share have grown at an average compound annual rate of 58% over the past four years.

OPERATING INCOME
(in millions of dollars)



1999 PLAN

In 1999, our goal is to achieve a minimum of 20% growth in fully diluted earnings per share.

"We are building MDC on two levels. To a great extent our growth has come from acquisitions, but we are constantly mindful of the need to balance that by focusing on internal growth opportunities. Our companies are working aggressively to increase market share. MDC is committing the necessary capital and human resources to make sure they can."

Janice Wadge SENIOR VICE-PRESIDENT, BUSINESS PLANNING

3

We delivered excellent growth and predictable profits.

Our goal at MDC is to profitably integrate our established companies with high-growth prospects for the future. With long-term customer relationships and strong cash flow, our businesses such as cheques, stamps, and tickets help to finance the development of emerging market opportunities such as card services, business and technology outsourcing, e-commerce, and Internet services.

"Our Secure Transaction Products and Services division has grown dramatically over the past three years from revenues of $39 million to $361 million. Our next vital step is to ensure that management disciplines such as performance measurement and systems standardization are aligned to help us become the billion-dollar company we envision."

Lyle Kerr PRESIDENT & CHIEF EXECUTIVE OFFICER, SECURE TRANSACTION PRODUCTS AND SERVICES DIVISION

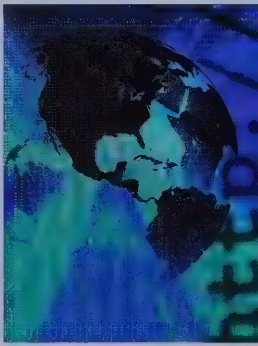
BACKGROUND

MDC has grown through a combination of internal growth and managed acquisitions. We have focused acquisition criteria. All potential acquisitions must either fit strategically with our core competencies or help enhance our customer relationships. We seek companies that are market or technology leaders in their field with consistent and predictable earnings and strong management. Target acquisitions must demonstrate the ability to achieve a minimum 20% return on capital employed within three to five years.

1998 PLAN

Our plan in 1998 was to invest selectively in strategic acquisitions, and in technology and human resources that would leverage our long-term customer relationships and strong market positions.

DELIVERY



The excellent cash flows generated in businesses such as cheques, stamps, and tickets were reinvested in enterprises such as Optus Corporation, MDC Card Services, and U.S. direct-to-consumer cheques, where future growth is very promising. We also acquired the Canadian card and cheque units of Quebecor, and three U.S. direct-to-consumer cheque businesses. Consistent with our strategy to build critical mass in our Communications and Marketing Services division (Maxxcom Inc.), we acquired four companies in the market niches we are targeting, three of which are based in the U.S. Regal Greetings & Gifts was successfully restructured in 1998 in preparation for its divestiture.

1999 PLAN

We will investigate possible acquisitions in technology-based companies with e-commerce and Internet capabilities. We will also, through acquisition, continue to build further critical mass in Maxxcom Inc. In all our companies, we will invest in the management and systems infrastructure we need to support our aggressive growth plans for the future.

"We spent 1998 at Regal repositioning the company for divestiture. We have cut costs and returned to our core business of selling cards, wraps, and specialty gifts. In 1999, we expect a substantial increase in sales and continued improvement in profitability."

Richard Gyde PRESIDENT & CHIEF EXECUTIVE OFFICER, REGAL GREETINGS & GIFTS

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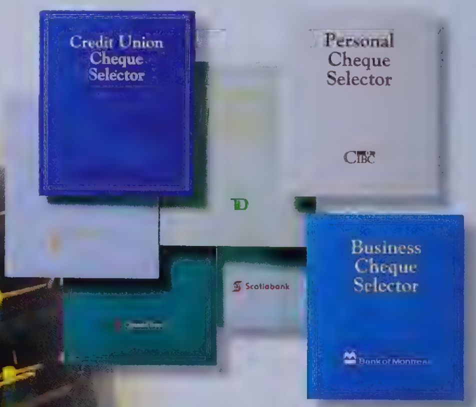
We increased revenues and profits in our Canadian cheque business and reinforced our No. 1 market position.



Davis + Henderson *operates four highly automated cheque production and personalization facilities that offer Canada's financial institutions exceptional customer service and rapid order fulfillment.*

"As well as serving the majority of personal cheque customers in Canada, Davis + Henderson also does business with more than one million small businesses through our cheque supply relationships with Canadian financial institutions. In association with these institutional partners, our intention is to offer complementary products and services to this growing market, a substantial economic opportunity for MDC."

Sanford McFarlane CHAIRMAN & CHIEF EXECUTIVE OFFICER, DAVIS + HENDERSON

BACKGROUND

In 1996, MDC acquired Davis + Henderson, a major Canadian cheque producer with a 40% market share. Since then, we have become the country's largest cheque supplier through long-term partnership agreements with all major Canadian financial institutions. Over this time, revenues and market share have more than doubled.

1998 PLAN

Our goal was to integrate substantial new cheque volumes into our existing production facilities while ensuring the highest possible levels of customer satisfaction and service.

DELIVERY

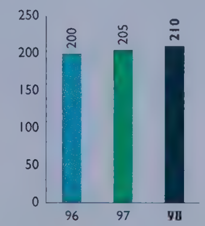
Growth from major new contracts signed in 1997 and the acquisition of Custom Cheques in 1998 has enabled us to solidify our No. 1 market share in Canada. These significant new volumes were successfully absorbed by existing Davis + Henderson facilities, increasing both margins and profits. Throughout this integration, our high standards of customer satisfaction were maintained and several new line extensions were introduced, further improving profits.

1999 PLAN

Davis + Henderson will focus on growth opportunities in related products and services for its existing base of customers, with an emphasis on the small business segment. Operational excellence will remain a top priority.

CANADIAN CHEQUE MARKET
(in millions of dollars)

The Canadian cheque market is experiencing modest growth in revenues, as increased usage of higher value small business cheques offsets moderate declines in usage of personal cheques.



"Strategic acquisitions have been a critical element in the growth of our North American cheque operations. We will continue to look for opportunities to consolidate the U.S. market."

Robert Cronin PRESIDENT & CHIEF OPERATING OFFICER, MDC CHEQUE OPERATIONS

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Our U.S. cheque business more than tripled its revenues, establishing a strong No. 2 market share position.

In addition to a strong presence in free-standing newspaper inserts, the traditional distribution vehicle for direct-to-consumer cheques, **MDC U.S. Direct Checks** *has expanded its market reach through its website on the Internet. Our interactive Web page effectively attracts new customers who discover that direct-order cheques are a much less expensive and more expressive alternative to U.S. bank-ordered cheques.*

BACKGROUND

The US$350-million direct-to-consumer segment of the US$2-billion personal cheque industry in the United States has been growing at approximately 15% per year. Direct-to-consumer cheques provide American customers with a wider product selection at a lower cost than bank-purchased cheques.

1998 PLAN

Our primary goal in 1998 was to increase our share of the U.S. direct-to-consumer cheque market through targeted acquisitions and aggressive advertising. By acquiring competitors, we would gain critical access to contracted advertising channels, thereby stimulating additional growth.

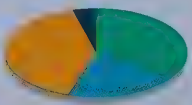
DELIVERY

We moved from the No. 5 to the No. 2 market position with three strategic acquisitions: Artistic Checks, Styles Checks, and Custom Direct Inc., part of Quebecor's cheque and card division. In 1996, our customer base was approximately 1.0 million. Today, it exceeds 12.5 million. With five strong brands and favourable access to advertising vehicles for promotion, MDC is well positioned for future growth. Additionally, increased volumes have allowed us to centralize manufacturing and significantly improve operating efficiencies.

1999 PLAN

With an established group of brands and expanded access to major advertising channels, our opportunity is to attract new customers into the direct-to-consumer cheque market. In addition, we anticipate that our website on the Internet will enhance our ability to reach a broader market.

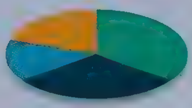
1996 U.S. MARKET SHARE (estimated) (Direct-to-Consumer Market)



- #1 Competitor 35%
- #2 Competitor 20%
- All Others 41%
- **MDC U.S. Direct Checks 4%**

In just three years, MDC has grown its U.S. cheque operations from a small niche player to the #2 market position in the direct-to-consumer market.

CURRENT U.S. MARKET SHARE (estimated) (Direct-to-Consumer Market)



- #1 Competitor 35%
- **#2 MDC U.S. Direct Checks 30%**
- #3 Competitor 15%
- All Others 20%

"The powerful combination of five distinct brands and access to the key advertising channels gives MDC a distinct competitive advantage in the U.S. direct-to-consumer cheque marketplace."

John Browning PRESIDENT, MDC U.S. DIRECT CHECKS

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After more than doubling the size of our Canadian card services business, we now hold the No. 2 market share position in both Canada and Australia.

During 1998, MDC invested in state-of-the-art technologies and facilities with secure personalization and fulfillment capabilities for credit, debit, and smart card applications.

BACKGROUND

MDC entered the global card services business in 1996 with the acquisition of the Australian-based Placard Security Pty Ltd. We expanded into Canada in 1997 with the purchase of Bicybec Ltée and the card-production unit of the Canadian Imperial Bank of Commerce (CIBC). We believe the card services market is on the verge of substantial growth for three reasons: major card-issuing organizations are turning increasingly to personalized cardholder communications for targeted marketing; the transportation and health care industries are adopting new card-based applications; and a growing number of financial, telecommunications, and loyalty transactions will be performed through the use of smart cards.

1998 PLAN

Our goal for 1998 was to achieve a strong market share position in both the Canadian and Australian markets through investment in technology, increased capacity, and targeted acquisitions.

DELIVERY

Within a two year period, we have captured the No. 2 position in both markets. In 1998, we doubled the size of our Canadian card business with the acquisition of Quebecor's card division. In addition to manufacturing all Visa, ATM, and debit cards for CIBC and Royal Bank, we now supply all of Bell Canada's calling cards and smart cards and recently won a large contract from Loyalty Management Group (Air Miles). In anticipation of future growth, we invested in a 65,000-square-foot state-of-the-art personalization and production facility in Concord, Ontario and a new 10,000-square-foot personalization facility in Sydney, Australia.

1999 PLAN

We anticipate that our share of the Canadian market will be approximately 40% by the end of 1999, positioning MDC as the No. 1 card business in Canada. We will use our advanced card manufacturing, personalization, and fulfillment technologies to win major new contracts in both Canada and Australia.

"Our customers are in highly competitive businesses. They want the cards they issue to offer more features and benefits and they want to communicate more effectively with their cardholders. MDC Card Services is equipped to offer these advantages and more."

Greg McKenzie PRESIDENT & CHIEF OPERATING OFFICER, SECURITY CARD SERVICES GROUP

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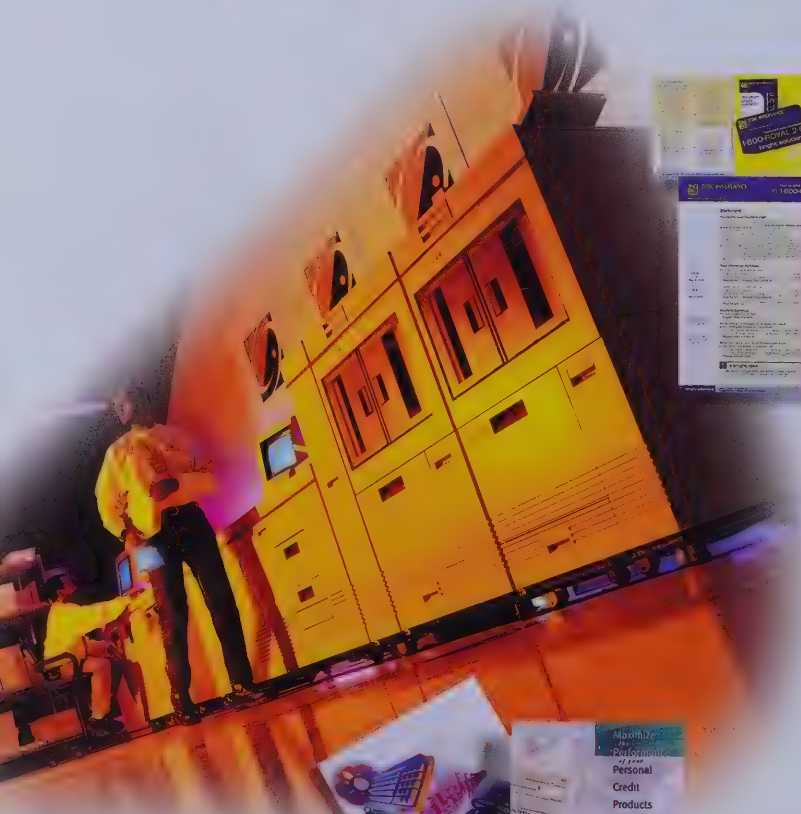
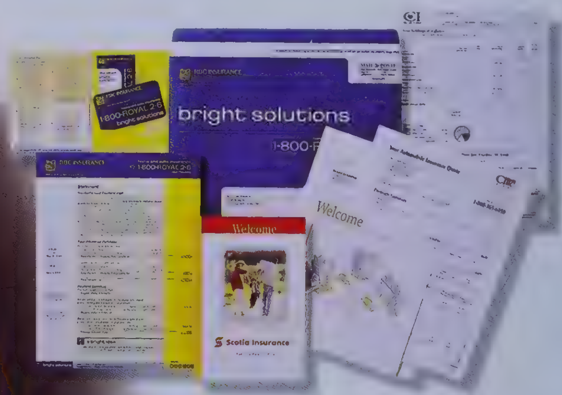
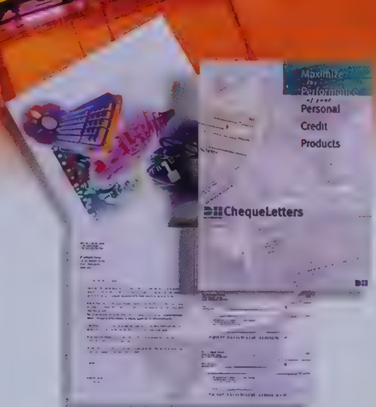
We established the Business and Technology Services group (Optus Corporation) to serve the growing outsourcing market.





One-to-one marketing enables companies with regular customer mailings to transform generic communications into powerful marketing tools. **Optus Corporation** *uses the latest design and data imaging technologies to create, print, and deliver highly effective personalized customer communications that help stimulate sales.*



BACKGROUND

Among major corporations there is a growing trend to outsource non-core activities such as statement and payment processing. Service-oriented companies with the right skills and technologies can assist their customers to develop powerful one-to-one marketing solutions that drive sales and increase profits. MDC's first step into this growing market was the acquisition in 1996 of Data Imaging, an electronic printing and mail service bureau serving financial institutions and the retail industry.

1998 PLAN

Our objective was to build the Business and Technology Services group by investing in new technologies, recruiting top people, and acquiring complementary companies to position ourselves to win major outsourcing contracts in 1999.

DELIVERY

Named Optus Corporation, the new company grew rapidly through the year with the acquisition of Information DesignWorks, a leading document strategy and design consulting firm, and a majority interest in Qualtech Processing Inc., the largest independent items and remittance processing company in Canada. We invested in infrastructure enhancements including production control processes, high-speed electronic printing, and programming tools for electronic composition and e-commerce. A talented management team was recruited from the outsourcing and customer communications industries. Already we have been awarded a number of substantial contracts.

1999 PLAN

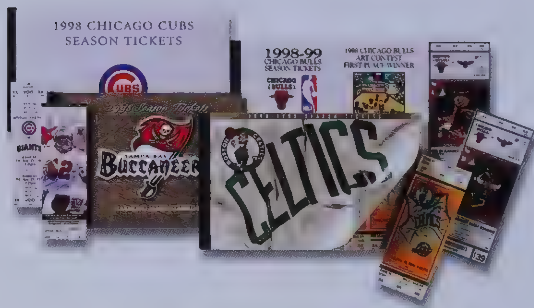
Optus Corporation is expected to double its revenues in 1999. Within five years, our intention is to develop this business into a $250-million operation, through acquisitions, joint ventures, and substantial internal growth.

Using special data imaging, printing, and finishing technologies, Optus is able to create expressive, full-colour shelf-ready pricing labels, customized for each product and retail location. Affixed to the shelf in place of standard store labels, these "mini-billboards" have proven to increase sales of consumer brands, pharmacy items, and grocery products by 30% to 35%.

"The outsourcing of customer communications services is a well established industry with consistent 15% to 20% annual growth. Optus is uniquely qualified to provide a full range of services, from communications strategy and design to fulfillment, Internet production, and remittance processing. We have the talent, technology, and customer relationships to be an industry leader."

Jon Hantho PRESIDENT & CHIEF OPERATING OFFICER, OPTUS CORPORATION

8



Our ticketing business achieved an internal growth rate of 15% and significantly improved its international market position.

One of North America's leading producers of event tickets and transit-related ticketing documents, **Mercury Graphics** *offers its customers the specialized printing and fulfillment, service reliability, express delivery, and security features they require.*

BACKGROUND

Mercury Graphics manufactures secure tickets and ticketing products in three major industry segments: airline, transit, and event ticketing. We have built strong client relationships with major businesses including British Airways, Air Canada, Canadian Airlines, Northwest Airlines, the Toronto Transit Commission, the Chicago Bulls, the Los Angeles Dodgers, and Ticketmaster Canada.

1998 PLAN

Our goal for 1998 was to increase our market share of the airline documents and event ticketing markets.

In 1999, our goal is to grow our share of the large arts and entertainment segment of the U.S. event ticketing market.

DELIVERY

New printing technologies and a strong focus on customer service helped us increase revenues by 15%. From 1995 to 1998, we tripled our airline business, earning the No. 1 market share position in Canada and one of the top positions worldwide. In 1998, we signed a contract with the Airlines Reporting Corporation, the organization that processes the majority of travel documents issued in the United States. Mercury became the leading supplier in major league sports ticketing in North America, with new contracts from the Dallas Stars, the St. Louis Blues, and the Cleveland Cavaliers.

1999 PLAN

We will continue to pursue our share growth strategy with expected revenue growth in excess of 15% for 1999. Part of this growth will come from new market initiatives in arts and entertainment event ticketing. In addition, we are actively evaluating opportunities to consolidate the highly fragmented ticketing industry.

"The travel and entertainment ticketing businesses are growing worldwide and present us with enormous untapped opportunities. We already have strong relationships with major carriers in the North American and European airline industries. In major league sports ticketing, our reputation for quality and service is second to none."

Graham Searle PRESIDENT & CHIEF OPERATING OFFICER, SECURITY PRINT PRODUCTS

9

Our stamp business dramatically grew revenue and improved operating efficiencies and profits.

The MDC Stamp Group *is trusted to produce stamps for postal authorities in more than 65 countries. The group's annual revenues have increased steadily through long-term customer relationships based on exacting standards of quality and highly secure documentation control systems.*

BACKGROUND

The MDC Stamp Group is one of the world's largest manufacturers of postage stamps with annual revenues exceeding CDN$60 million. The group has long-term contracts with the postal authorities of the United States, Canada, and the U.K. and manufactures stamps for more than 65 postal authorities worldwide. MDC Stamp Group is the printer for the U.S. Postal Service's prestigious Celebrate the Century series, the world's largest commemorative stamp program. We produce over 60% of all Canadian stamps and 30% of all high-quality stamp booklets in the U.K.

1998 PLAN

Our objectives for 1998 were to increase our share of the stamp market, and through investment in new technologies, to improve operating efficiencies while continuing to meet stringent customer standards.

DELIVERY

Business with our core customers continued to grow. U.S. sales increased by 50%. We were awarded our first contract to produce high-quality gravure stamp booklets for Royal Mail in the U.K. In Canada, we produced the first self-adhesive coiled stamps ever commissioned by Canada Post. We invested in new presses which, combined with major cost-cutting initiatives, resulted in exceptional bottom-line growth.

1999 PLAN

Our strategy is to continue strengthening our partnerships with current customers while using our technological versatility to expand further into the international marketplace.

"Across the world, government postal authorities are increasingly going to outsource the production of stamps. MDC is well positioned to earn a growing share of this market because we are one of the few companies with multiple international production sites and all the major stamp printing technologies."

Bill Kerson PRESIDENT, MDC STAMP GROUP

10

The Communications and Marketing Services division (Maxxcom Inc.) made strategic acquisitions in preparation for an intended IPO.

Consistent with our strategy to build a U.S. presence in the key segments of advertising and promotion, MDC acquired **Margeotes|Fertitta+Partners**, *a New York-based advertising agency, and* **Source Marketing**, *a U.S. sales promotion firm. Both serve blue-chip clients.*

BACKGROUND

We renamed the Communications and Marketing Services division Maxxcom Inc., in anticipation of an initial public offering. Maxxcom is comprised of a group of communications and marketing services companies with expertise in the high-growth niche markets of health care, financial services, agribusiness, technology, and consumer goods. Our successful ownership formula is to purchase a majority share of companies but ensure management retains a meaningful vested interest as an incentive to drive growth.

1998 PLAN

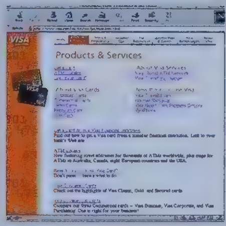
Our objective for 1998 was to build critical mass by acquiring companies to enhance our operations, particularly in the U.S. market.

DELIVERY

Maxxcom increased revenues by $35 million over 1997 for total revenues of $102 million. We acquired majority stakes in three market-leading U.S. companies: Margeotes|Fertitta+Partners, a New York-based advertising agency; Source Marketing, a sales promotion firm; and CyberSight, an Internet marketing services provider. In Canada, we acquired Integrated Healthcare Communications, a conference and communications specialist serving the pharmaceutical industry, and we recruited top industry experts and launched Northstar Research Partners, a market research firm with an international clientele.

1999 PLAN

In 1999 we will continue to build our portfolio of integrated marketing services companies and specialized communications companies. Maxxcom has made a strategic decision to deliver precisely targeted, integrated communications solutions to a broad range of clients who have traditionally been underserviced by large multinational firms. Our intention is to achieve at least 15% annual growth internally, and augment this through acquisition using our successful partnership formula. Ultimately, our goal is to unlock the division's value by way of an initial public offering.



To capitalize on emerging market trends, we acquired ***CyberSight****, a U.S.-based advertising agency specializing in the field of Internet advertising and marketing, and* ***Integrated Healthcare Communications****, a Canadian communications specialist serving the pharmaceutical industry.*

"The communications services industry will continue to enjoy healthy growth. The greatest opportunity for MDC lies with clients who want the special long-term relationships and personalized services offered by owner-managed businesses."

Beverley Morden PRESIDENT, MAXXCOM INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

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Results of Operations: 1998 compared to 1997

The following table summarizes by division the Company's results of operations for the years ended December 31, 1998 and 1997 (all amounts in CDN$ millions):

	1998	1997	Increase (Decrease)	Increase (Decrease)
Sales				
Secure Transaction Products and Services	**361.2**	195.3	165.9	85%
Communications and Marketing Services	**101.8**	66.8	35.0	52%
Corporate and other	**13.7**	17.9	(4.2)	(23%)
	476.7	280.0	196.7	70%
Gross profit				
Secure Transaction Products and Services	**182.6**	92.3	90.3	98%
Communications and Marketing Services	**40.2**	20.3	19.9	98%
Corporate and other	**11.3**	10.6	0.7	7%
	234.1	123.2	110.9	90%
Operating expenses				
Secure Transaction Products and Services	**112.1**	61.3	50.8	83%
Communications and Marketing Services	**26.1**	11.4	14.7	129%
Corporate and other	**17.3**	14.8	2.5	17%
	155.5	87.5	68.0	78%
Operating income				
Secure Transaction Products and Services	**70.5**	31.0	39.5	127%
Communications and Marketing Services	**14.1**	8.9	5.2	58%
Corporate and other	**(6.0)**	(4.2)	(1.8)	43%
	78.6	35.6	42.9	120%
Amortization				
Secure Transaction Products and Services	**21.6**	12.3	9.3	76%
Communications and Marketing Services	**2.7**	1.5	1.2	80%
Corporate and other	**1.7**	1.0	0.7	70%
	26.0	14.8	11.2	76%
Minority interests				
Secure Transaction Products and Services	**1.4**	0.4	1.0	250%
Communications and Marketing Services	**4.6**	2.5	2.1	84%
	6.0	2.9	3.1	107%
Earnings, before interest and income taxes				
Secure Transaction Products and Services	**47.5**	18.3	29.2	160%
Communications and Marketing Services	**6.8**	4.9	1.9	39%
Corporate and other	**(7.7)**	(5.2)	(2.5)	48%
	46.6	18.0	28.6	159%
Interest	**23.0**	6.3	16.7	265%
Earnings before income taxes	**23.6**	11.7	11.9	102%
Income taxes	**9.5**	3.9	5.6	144%
Income from continuing operations	**14.1**	7.8	6.3	81%
Income (loss) from discontinued operations	**0.0**	(28.6)	28.6	100%
Net income (loss) for the year	**14.1**	(20.8)	34.9	168%

SALES

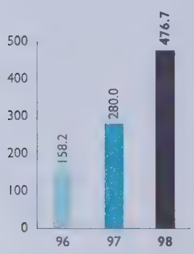
Sales in 1998 were $476.7 million, representing an increase of $196.7 million or 70% over the $280.0 million in 1997. Year-over-year growth in sales is summarized as follows:

Secure Transaction Products and Services	$	165.9
Communications and Marketing Services		35.0
Corporate and other		(4.2)
	$	196.7

Secure Transaction Products and Services Division

Sales of the Secure Transaction Products and Services division totalled $361.2 million in 1998, up $165.9 million or 85% over the $195.3 million in 1997. This growth accounted for 84% of the increase in sales of the Company. The high rate of sales growth resulted in large part from the inclusion of the results of the acquisitions of Artistic Checks, Custom Cheques and Custom Direct Inc., and Styles Checks. Acquisitions accounted for $90.3 million of the sales increase with the remaining $75.6 million generated through internal growth across the division.

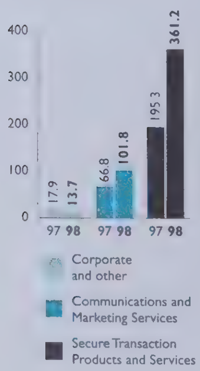
TOTAL SALES
(in millions of dollars)



Communications and Marketing Services Division

Sales of the Communications and Marketing Services division totalled $101.8 million in 1998, up $35.0 million or 52% over the $66.8 million in 1997. The acquisitions of Margeotes|Fertitta+Partners ("MF+P") and CyberSight accounted for $18.7 million of the increase in 1998. The remaining $16.3 million increase was a result of internal growth generated throughout the division's operating units.

SALES BY BUSINESS SEGMENT
(in millions of dollars)



GROSS PROFIT

Gross profit was $234.1 million in 1998, representing an increase of $110.9 million or 90% over the gross profit of $123.2 million in 1997. Gross margin increased 5% from 44% in 1997 to 49% in 1998 as a result of improved margins in both the Secure Transaction Products and Services and Communications and Marketing Services divisions.

Secure Transaction Products and Services Division

Gross profit was $182.6 million in 1998, up $90.3 million or 98% over the $92.3 million achieved in 1997. This increase is directly attributable to the growth in sales and improved margins of the division. Gross margin for the division was 50.6%, compared to the 47.3% gross margin achieved in 1997. The increase in gross margin is primarily a result of production efficiencies and cost reduction initiatives.

Communications and Marketing Services Division

Gross profit was $40.2 million in 1998, representing an increase of $19.9 million or 98% from the $20.3 million in 1997. Again, this increase is attributable

to the sales increase combined with improved gross margins in the division. Gross margins increased to 39.5% from 30.4%, primarily the result of changes in sales mix.

OPERATING EXPENSES

Operating expenses totalled $155.5 million in 1998, representing an increase of $68 million or 78% over the $87.5 million in 1997. This increase is directly attributable to the growth in the Company's sales both internally and through acquisitions. Operating expenses increased marginally from 31.3% of sales in 1997 to 32.6% of sales in 1998.

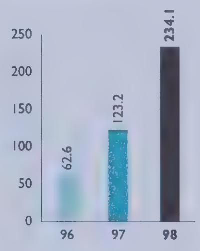
Secure Transaction Products and Services Division

Operating expenses totalled $112.1 million in 1998, up $50.8 million or 83% over the $61.3 million in 1997. This increase was in large part attributable to the Artistic Checks, Custom Cheques, Custom Direct Inc. and Styles Checks acquisitions in 1998. Operating expenses as a percentage of sales were relatively unchanged, down 0.4% from 31.4% in 1997 to 31.0% in 1998.

Communications and Marketing Services Division

Operating expenses totalled $26.1 million in 1998, reflecting an increase of $14.7 million or 129% from the $11.4 million in 1997. Operating expenses increased from 17.1% of sales in 1997 to 25.6% of sales in 1998, as a result of the change in sales mix.

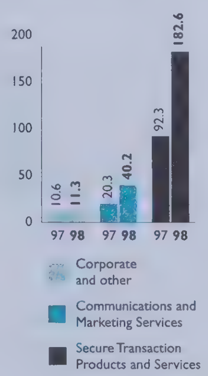
GROSS PROFIT
(in millions of dollars)



OPERATING INCOME

Operating income was $78.6 million in 1998, reflecting an increase of $42.9 million or 120% over the $35.7 million achieved in 1997. This increase can be attributed to increases in the operating income in both of the Company's divisions: $39.5 million from the Secure Transaction Products and Services division and $5.2 million from the Communications and Marketing Services division. These increases are offset slightly by a $1.8 million increase in corporate and other costs in 1998. Operating income increased from 12.8% of sales in 1997 to 16.5% of sales in 1998, primarily due to improved gross margins and expense containment in both divisions.

GROSS PROFIT BY BUSINESS SEGMENT
(in millions of dollars)



Secure Transaction Products and Services Division

Operating income was $70.5 million in 1998, up $39.5 million or 127% over the $31.0 million in 1997. This increase is attributable to the inclusion of operating income relating to 1998 acquisitions and internal growth. Operating income increased from 15.9% of sales in 1997 to 19.5% of sales in 1998.

Communications and Marketing Services Division

Operating income was $14.1 million in 1998, $5.2 million or 58% higher than the $8.9 million achieved in 1997. Operating income increased from 13.3% of sales in 1997 to 13.9% of sales in 1998. The increase in operating income was attributable to the inclusion of the results from the acquisitions of MF+P and CyberSight in 1998 as well as from internal growth.

AMORTIZATION

Amortization was $26.0 million in 1998, up $11.2 million or 76% over the amortization of $14.8 million in 1997. This increase was primarily attributable to the increased asset base of the Secure Transaction Products and Services division.

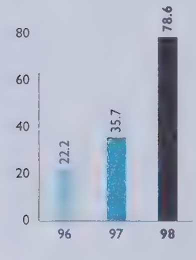
Secure Transaction Products and Services Division

Amortization was $21.6 million in 1998, up $9.3 million or 76% over the $12.3 million of amortization in 1997. An increased asset base, primarily the result of acquisitions in our North American cheque operations, accounts for this increase.

Communications and Marketing Services Division

Amortization was $2.7 million in 1998, representing an increase of $1.2 million or 80% over the $1.5 million in 1997, primarily the result of divisional acquisitions.

OPERATING INCOME
(in millions of dollars)



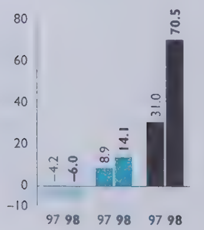
MINORITY INTERESTS

Minority interests were $6.0 million in 1998, $3.1 million or 107% higher than the $2.9 million in 1997. This increase resulted from growth of $1.0 million from the Secure Transaction Products and Services division and $2.1 million from the Communications and Marketing Services division. The increases were directly attributable to the increased profitability of each of the divisions.

EARNINGS BEFORE INTEREST AND INCOME TAXES ("EBIT")

EBIT was $46.6 million in 1998, $28.6 million or 159% higher than the $18.0 million in 1997. This increase resulted from growth of $29.2 million from the Secure Transaction Products and Services division and $1.9 million from the Communications and Marketing Services division. The increase was offset by increased corporate and other costs of $2.5 million.

OPERATING INCOME BY BUSINESS SEGMENT
(in millions of dollars)



INTEREST EXPENSE

Interest expense was $23.0 million in 1998, up $16.7 million or 265% over the $6.3 million in 1997. This increase primarily related to additional long-term indebtedness incurred to fund the Company's acquisitions.

INCOME TAX EXPENSE

Income tax expense was $9.5 million in 1998 compared with $3.9 million in 1997. This increase is directly attributable to the Company's increased earnings in 1998. Income taxes increased from 33.3% of earnings before income taxes in 1997 to 40.2% in 1998. The Company continued to utilize the benefits of previously unrecorded tax losses to reduce its tax provision to below statutory rates.

INCOME FROM CONTINUING OPERATIONS

Income from continuing operations in 1998 was $14.1 million, up $6.3 million or 81% over the $7.8 million earned in 1997. Income from continuing operations increased marginally from 2.8% of sales in 1997 to 3.0% of sales in 1998.

NET INCOME (LOSS) FOR THE YEAR

Net income in 1998 was $14.1 million, up $34.9 million or 168% over the net loss of $20.8 million in 1997. Of this increase $28.6 million relates to the loss incurred by the Company in 1997 relating to discontinued operations. The remaining increase is due to the overall improvement in results as discussed in the foregoing items.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

Working capital was $44.8 million at the end of 1998, reflecting an increase of $6.9 million or 18% over the $37.9 million in working capital at the end of 1997.

In 1998, the Company increased its revolving credit facility from US$75 million to US$150 million (CDN$230 million). The Company has utilized approximately CDN$52.6 million of this facility in the form of cash and letters of credit at December 31, 1998. As at December 31, 1998, the Company had approximately CDN$177.4 million in unrestricted cash and available bank credit facilities to support the Company's future cash requirements.

Long-term Indebtedness

Long-term indebtedness (including long-term indebtedness and current portion of long-term indebtedness) was $394.4 million at December 31, 1998, representing a net increase of $184.3 million over the $210.1 million in long-term indebtedness at December 31, 1997.

On November 13, 1998, the Company issued an additional US$75 million of its 10 1/2% Senior Subordinated Notes due December 2006. The proceeds of this financing were used primarily to repay indebtedness on the Company's credit facility.

The following matrix summarizes the Company's exposure to interest and exchange rate risks at December 31, 1998:

Interest	CDN$	US$	UK£	AUS$
Fixed	223,417,000	25,000,000	1,435,000	1,075,000
Floating	—	83,500,000	—	—

Long-term Indebtedness to Shareholders' Equity

With $198.1 million of shareholders' equity and $394.4 million of long-term indebtedness, the Company's long-term indebtedness to shareholders' equity ratio increased marginally in 1998, from 1.79 to 1 at December 31, 1997 to 1.99 to 1 at December 31, 1998.

Repayment of Long-term Indebtedness

Approximately $80.0 million of long-term indebtedness is due within the next five years and the majority is due December 1, 2006. Management anticipates that this indebtedness will be repaid from cash flow from operations.

Cash Flow from Operations

Cash flow from operations, before changes in non-cash working capital, was $45.1 million in 1998, representing an increase of $22.7 million or 101% over the $22.4 million generated in 1997. The funds were used primarily to help fund the Company's capital expenditure program in 1998.

RISKS AND UNCERTAINTIES

Customer Concentration

Secure Transaction Products and Services Division

In 1998, the Secure Transaction Products and Services division contributed approximately 76% of the Company's consolidated sales. The division currently derives a significant portion of its revenue from its cheque and postage stamp printing businesses, both of which have a concentrated customer base.

A significant portion of the division's cheque printing revenue is derived from its sales to financial institutions pursuant to agreements. Since cheques in Canada are sold through financial institutions and there is currently no direct-to-consumer cheque market as in the United States, the loss of, or material reduction of volume under, these contracts would have a material adverse effect on the results of the division. Although the Company believes that these contracts will continue to operate throughout their entire term and will be extended in the ordinary course of business, there can be no assurance that extensions will be exercised or that the contracts will be renewed at their scheduled expiration.

The postage stamp business derives a significant portion of its revenues from government contracts. Contracts are generally awarded in a competitive bidding process. The loss of these contracts could have an adverse effect on the sales and earnings of the division. Although there can be no guarantees that the contracts will be retained upon their expiration, management's belief is that the division will successfully retain these contracts and continue to increase annual production allocations. In addition, it is expected that the significant capital investment made to acquire state-of-the-art equipment and technology will give the division production cost efficiencies over its competitors.

Communications and Marketing Services Division

Management's ongoing strategy to acquire ownership stakes in well-managed businesses has allowed the division to grow into a broad portfolio of 16 companies. The resulting diversity has allowed the division to minimize the effects that might arise from the loss of any one client or manager.

Management succession is very important to the ongoing results of the division. Management has focused on mitigating the risks with respect to these successions, as well as the promotion of various growth initiatives.

Competition

Each of the Company's divisions operates in a highly competitive environment.

The Company's Secure Transaction Products and Services division competes primarily on the basis of quality, customer service, design capability and price. A number of the Company's competitors have greater resources than those

available to the Company which may enable them to aggressively pursue the business of the Secure Transaction Products and Services division.

The Company's Communications and Marketing Services division competes in an industry characterized by numerous firms of varying sizes, with no single firm or group of firms having a dominant position in the marketplace. Competitive factors include creative reputation, management, personal relationships, quality and reliability of service and expertise in particular niche areas of the marketplace. Although the price of services may be a competitive factor in obtaining new clients, it is generally of lesser importance once a client relationship has been established.

Currency Fluctuations

Although the Company's financial results are reported in Canadian dollars, a significant portion of its sales and operating costs are denominated in U.S. dollars. Furthermore, an increasing portion of the Company's sales and operating costs are expected to be in U.S. currency. The Direct Marketing division (e.g., Regal Greetings & Gifts) purchases the majority of its merchandise from third parties in foreign currencies, primarily U.S. and Hong Kong dollars. As a result, fluctuations in the exchange rate between the Canadian dollar and other currencies, particularly the U.S. dollar, may affect the Company's financial results and the Company's competitive position. The Company generally manages its exposure to foreign currency risk by matching its debt charges with cash flows of a common currency, and where appropriate, may hedge currency risks through foreign exchange contracts and currency swap agreements. There can be no assurance that such measures will be successful; however, management will attempt to mitigate these risks to the fullest extent available.

Alternative Forms of Payment

Cheque usage in Canada has declined in the past several years. Consumers and businesses in the North American marketplace have recently been introduced to various electronic and other forms of payment. The Company cannot conclusively determine what effect these alternate forms of payment may have on future average cheque usage by consumers or businesses. There can be no assurance that such factors will not have a material adverse effect on the future volumes of cheques produced by the Company or its revenues.

Discontinued Operations (Regal Greetings & Gifts)

The Company has announced a plan to divest its Regal operations. The Company does retain the responsibility to realize assets and discharge liabilities in the normal course of business for this operation until the ultimate divestiture process has been completed. Consequently, the following risks and uncertainties continue to be applicable to the Company.

Postal Interruption

The operation's mail order catalogue sales are somewhat dependent on continued availability of uninterrupted postal delivery service for outgoing catalogue distribution, incoming mail orders, related parcel shipments and customer

communications. Partially in response to the history in Canada of postal interruptions and threats of interruption, Regal has developed alternate means of receiving incoming orders and shipping parcels, including the use of toll-free order telephone lines, fax orders and independent courier services. Regal's reliance on postal delivery service has been further reduced as a result of its ability to deliver merchandise to catalogue customers through its service centres. On an annual basis, approximately 71% of the Regal's merchandise is delivered using means other than postal delivery service. However, a prolonged interruption in Canada's postal service as experienced in the fourth quarter of 1997 would have a material adverse impact on the Regal's results.

Foreign Suppliers

Approximately 68% of Regal's merchandise offered through its core catalogues is purchased from foreign independent trading agents selling products for manufacturers located in Asian countries. Therefore, Regal is exposed to the customary risks of doing business abroad, including fluctuations in the value of currencies, import duties, quotas, work stoppages, and political instability. To date, these factors have not had a material adverse effect on Regal's operations.

Seasonality

Significant portions of the sales for Regal are usually earned in the peak selling period leading to Christmas. A major postal interruption or supplier disruption affecting this selling period potentially could have an adverse impact on the division's results.

YEAR 2000 COMPLIANCE

The advent of the Year 2000 may cause difficulties for date sensitive systems to accurately process and retain information on an ongoing basis. These Year 2000 difficulties could impact the Company because of its reliance on information technology systems including internal accounting and manufacturing systems as well as manufacturing equipment with embedded technology. Given this potential problem, the Company appointed a task force and established a rigid methodology to ensure Year 2000 compliance. The task force is comprised of a member of the Board of Directors, senior head office personnel and the presidents of each division. In addition, the Company has retained an outside consultant to coordinate and provide guidance to the Company in its Year 2000 efforts. The Company has substantially completed its inventory review and assessment phase and has commenced compliance testing.

The Company has mandated that all systems will be Year 2000 compliant no later than the summer of 1999. In addition, the Company ensures that all systems and manufacturing equipment purchased are Year 2000 compliant. Presently the Company is on schedule to complete its Year 2000 initiative by the summer of 1999.

In the event of a Year 2000 system failure, the Company has commenced the development of a contingency plan to ensure business continuity. This plan will be substantially complete by June 30, 1999. Given that the majority of the Company's customers are large financial institutions or governments, the scope of determining compliance is greatly reduced. The failure to correct a material Year 2000 issue could cause an interruption in, or failure of, certain normal business activities or operations. Such failures could materially and adversely affect the Company's results of operations, liquidity, and financial condition.

The Company continues to upgrade its hardware and software systems, both in the normal course of business and to ensure Year 2000 compliance. Based upon current assessments, the Company believes that the Year 2000 issue will not have a materially adverse impact on its results of operation, liquidity and financial condition. Costs associated with ensuring Year 2000 compliance are estimated to be minimal and will be expensed as incurred. The costs expended to date have been approximately $0.2 million and have been funded through the operating cash flow of the Company. Expected costs to complete the project are $0.3 million.

OUTLOOK

The Company is clearly showing positive results and focus with respect to the implementation of the strategic plan announced in January 1998. The current year results have provided record growth in Sales, Operating Income, Net Income and Cash Flow in addition to a reduction in the seasonality of results from its operations.

The Secure Transaction Products and Services division is expected to continue to grow through gains in market share of existing products and from strategic acquisitions. The successful integration of recent acquisitions has provided the Company with a strong base of earnings and cash flow from which to capitalize on further opportunities.

We expect to grow the sales and operating profits of the Communications and Marketing Services division both internally and through strategic acquisitions. The Company will explore ways to crystallize the value of the division, likely by way of an initial public offering.

During 1999, the Company will continue to seek and evaluate acquisition opportunities. We will continue to maintain strict adherence to our fundamental acquisition criteria of niche companies or market leaders with good management, stable sales and earnings streams, low capital expenditure requirements, and strong growth prospects.

With a clear and defined corporate strategic plan and focused and experienced management in place at all levels of the Company combined with available capital resources, management anticipates continued growth in earnings and shareholder value in 1999 and beyond.

Management's Report

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the preparation and presentation of these financial statements and all the financial information contained within this annual report within reasonable limits of materiality. The financial statements have been prepared in accordance with generally accepted accounting principles in Canada. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying consolidated financial statements. The financial information throughout the text of this annual report is consistent with that in the financial statements.

To assist management in discharging these responsibilities, the Company maintains a system of internal control which is designed to provide reasonable assurance that its assets are safeguarded, that transactions are executed in accordance with management's authorization and that the financial records form a reliable base for the preparation of accurate and timely financial information.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards and applicable laws, and for the maintenance of proper standards of conduct in its activities.

BDO Dunwoody LLP, Chartered Accountants, are appointed by the shareholders and have audited the consolidated financial statements in accordance with generally accepted auditing standards. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements of the Company.

Annually, the Board of Directors appoints an Audit Committee composed of at least three directors who are not members of management. The Audit Committee meets periodically with management and the auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. It is responsible for reviewing the annual and interim consolidated financial statements and the report of the auditors. The Audit Committee reports the results of such review to the Board and makes recommendations with respect to the appointment of the Company's auditors. In addition, the Board may refer to the Audit Committee on other matters and questions relating to the financial position of the Company and its affiliates.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and for approving the consolidated financial statements for presentation to shareholders.

Miles S. Nadal

Miles S. Nadal
PRESIDENT &
CHIEF EXECUTIVE OFFICER
MARCH 14, 1998

Peter M. Lewis
EXECUTIVE VICE-PRESIDENT &
CHIEF FINANCIAL OFFICER

Auditors' Report

To the Shareholders of MDC Communications Corporation

We have audited the consolidated balance sheets of MDC Communications Corporation as at December 31, 1998, 1997 and 1996 and the consolidated statements of retained earnings, operations and changes in financial position for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998, 1997 and 1996 and the results of its operations and the changes in its financial position for each of the years then ended in accordance with generally accepted accounting principles in Canada.

BDO Dunwoody LLP

CHARTERED ACCOUNTANTS
MARKHAM, ONTARIO
FEBRUARY 24, 1999

Consolidated Balance Sheets

For the years ended December 31

(in thousands of Canadian dollars)	**1998**	1997	1996
ASSETS			
Current			
Cash and short-term investments	**$ 20,157**	$ 10,793	$ 41,937
Accounts receivable *(note 2)*	**81,135**	62,512	36,767
Inventory	**52,600**	43,332	39,391
Prepaid expenses and sundry	**40,566**	13,961	9,020
	194,458	130,598	127,115
Capital and other assets *(note 3)*	**167,197**	118,463	96,053
Goodwill *(note 4)*	**378,358**	168,448	138,767
	$740,013	$ 417,509	$ 361,935
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness *(note 5)*	**$ 2,650**	$ 12,077	$ 676
Accounts payable and accrued liabilities	**130,098**	69,910	57,446
Deferred revenue	**11,180**	6,169	2,957
Current portion of long-term indebtedness *(note 5)*	**5,719**	4,512	2,996
	149,647	92,668	64,075
Long-term indebtedness *(note 5)*	**388,711**	205,634	190,907
	538,358	298,302	254,982
Minority interest	**3,511**	2,039	1,177
Shareholders' equity			
Share capital *(note 6)*	**145,586**	84,180	86,219
Other paid in capital *(note 7)*	**40,909**	37,802	1,943
Cumulative translation adjustment *(note 8)*	**4,086**	—	—
Retained earnings (deficit)	**7,563**	(4,814)	17,614
	198,144	117,168	105,776
	$740,013	$ 417,509	$ 361,935

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

ON BEHALF OF THE BOARD:

Miles S. Nadal

Miles S. Nadal
DIRECTOR

Peter M. Lewis
DIRECTOR

Consolidated Statements of Operations

For the years ended December 31

(in thousands of Canadian dollars, except per share amounts)	1998	1997	1996
Sales	**$476,727**	$ 280,020	$ 158,211
Cost of sales	**242,608**	156,823	95,628
Gross profit	**234,119**	123,197	62,583
Operating expenses	**155,475**	87,551	40,395
Operating income before other charges	**78,644**	35,646	22,188
Other charges (income)			
Amortization	**26,048**	14,784	7,795
Gain on sale of capital assets	**—**	—	(615)
Interest	**23,018**	6,258	6,177
Minority interests *(note 9)*	**5,987**	2,870	1,258
	55,053	23,912	14,615
Income before income taxes	**23,591**	11,734	7,573
Income taxes *(note 10)*	**9,483**	3,953	2,842
Income from continuing operations	**14,108**	7,781	4,731
Income (loss) from discontinued operations *(note 11)*	**—**	(28,618)	2,308
Net income (loss) for the year	**$ 14,108**	$ (20,837)	$ 7,039
Earnings per share *(note 12)*			
Continuing operations			
Basic	**$ 0.93**	$ 0.50	$ 0.41
Fully diluted	**$ 0.88**	$ 0.49	$ 0.40
Reported			
Basic	**$ 0.93**	$ (1.82)	$ 0.61
Fully diluted	**$ 0.88**	$ (1.82)	$ 0.58

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Consolidated Statements of Retained Earnings

For the years ended December 31

(in thousands of Canadian dollars)	1998	1997	1996
Retained earnings (deficit), beginning of year	**$ (4,814)**	$ 17,614	$ 10,575
Net income (loss) for the year	**14,108**	(20,837)	7,039
	9,294	(3,223)	17,614
Allocation to other paid in capital, net of income tax recovery of $1,376 (1997 – $1,268)	**(1,731)**	(1,591)	—
Retained earnings (deficit), end of year	**$ 7,563**	$ (4,814)	$ 17,614

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Consolidated Statements of Changes in Financial Position

For the years ended December 31

(in thousands of Canadian dollars)	1998	1997	1996
Cash provided by (used in)			
Operating activities			
Income from continuing operations	**$ 14,108**	$ 7,781	$ 4,731
Items not involving cash			
Amortization	**26,048**	14,784	7,795
Deferred income taxes	**5,256**	(1,218)	462
Gain on sale of capital assets	**—**	—	(615)
Other	**(340)**	1,085	243
	45,072	22,432	12,616
Changes in non-cash operating accounts	**(29,791)**	(26,428)	(14,407)
	15,281	(3,996)	(1,791)
Discontinued operations, net of non-cash items	**(7,103)**	(12,039)	4,694
	8,178	(16,035)	2,903
Investing activities			
Investments and acquisitions, net	**(197,100)**	(35,681)	(79,915)
Capital assets, net	**(38,084)**	(19,727)	(14,353)
Other assets	**14,258**	(9,546)	(16,694)
	(220,926)	(64,954)	(110,962)
Financing activities			
Proceeds on issuance of long-term indebtedness	**179,250**	—	182,172
Repayment of long-term indebtedness	**(9,117)**	(6,397)	(54,350)
Net proceeds on issuance of convertible debentures	**—**	47,350	—
Issue of share capital	**61,406**	(2,509)	24,759
	231,539	38,444	152,581
Increase (decrease) in cash and equivalents during the year	**18,791**	(42,545)	44,522
Cash and equivalents, beginning of year	**(1,284)**	41,261	(3,261)
Cash and equivalents, end of year	**$ 17,507**	$ (1,284)	$ 41,261
Represented by			
Cash and short-term investments	**$ 20,157**	$ 10,793	$ 41,937
Bank indebtedness	**(2,650)**	(12,077)	(676)
	$ 17,507	$ (1,284)	$ 41,261

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Summary of Significant Accounting Policies

December 31, 1998, 1997 and 1996

Principles of Consolidation

The financial statements include the accounts of the Company and any effectively controlled subsidiary companies and are prepared in conformity with generally accepted accounting principles in Canada. Acquisitions are consolidated from the effective date of acquisition with intercompany transactions and accounts eliminated upon consolidation.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Prepaid Advertising

The Company capitalizes costs for direct response advertising and amortizes the costs over the period of expected future benefit. The amortization corresponds to the expected sales cycle of the advertising material based on actual advertising responses.

Capital Assets

Capital assets are recorded at cost. Amortization is provided as follows:

Buildings	— 4–5% straight line
Computer, furniture and fixtures	— 20–30% declining balance
Machinery and equipment	— 10–20% declining balance
Leasehold improvements	— Straight line over term of lease

Deferred Charges

The Company capitalizes direct costs related to development of new products and services until the commencement of commercial operations, at which time all related costs are amortized on a straight line basis over their estimated useful life.

Deferred Finance Costs

Deferred finance costs are amortized over the term of the related indebtedness.

Deferred Income Taxes

Deferred income taxes result primarily from the difference between amortization recorded in the accounts and capital cost allowance claimed for income tax purposes.

Foreign Currency Translation

With the exception of the Company's foreign subsidiaries, foreign currency assets and liabilities carried at current prices are translated into Canadian dollars using the rate of exchange in effect at the year end; other foreign currency assets and liabilities are translated using the rates of exchange in effect at the dates of the transaction; long-term monetary assets and liabilities with a fixed term which have been hedged are translated using the rate per the hedge agreements; revenue and expense items are translated at the average monthly rate of exchange for the year, except for amortization of capital and other assets which is translated at the historical rates of the related assets. The accounts of foreign subsidiaries self-sustaining operations are translated using the rate of exchange in effect at the year end.

The unrealized foreign exchange gains and losses on translation of the accounts of foreign subsidiaries are reflected as a separate component of shareholders' equity.

The unrealized foreign exchange gains and losses relating to translation of long-term monetary assets and liabilities with a fixed term are deferred and amortized over the remaining life of the related term. All other foreign exchange gains and losses are included in net income or loss in the current period.

Goodwill

Goodwill represents the price paid for acquisitions in excess of the fair market value of net tangible assets acquired. The Company amortizes goodwill on a straight line basis over periods ranging from 10 to 40 years. The carrying value of goodwill is assessed annually by reviewing the estimated future undiscounted cash flows of the underlying businesses of the Company. Any permanent impairment in the carrying value of goodwill is expensed in the period in which the assessment is made.

Pensions

The cost of pension benefits earned by employees covered under the defined benefit component of the pension plan is determined using the projected benefit method prorated on service. This cost reflects management's best estimates of the pension plan's expected investment yields, salary escalation, mortality of members and the ages at which members will retire.

Revenue Recognition

Revenue is recognized using the percentage of completion method with respect to contracts having a specified time period for the performance of the service. Work in progress is estimated as the portion of revenue which has been earned but not billed. Customer billings in advance are recorded as deferred revenue. Potential losses, if any, on work in progress are provided for as soon as the possibility of a loss becomes apparent.

All other revenue is recorded when the service is completed and/or the product is delivered.

Financial Instruments

The Company's financial instruments consist of cash and short-term investments, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, long-term indebtedness and derivative financial instruments. Derivative financial instruments are used by the Company to manage its exposure to market risks relating to interest rates and foreign currency exchange rates.

Credit Risk

The Company's financial assets that are exposed to credit risk consist primarily of cash, accounts receivable and derivative financial instruments. The Company, in its normal course of business, is exposed to credit risk from its customers. The Company is exposed to credit loss in the event of non-performance by counterparties to the derivative financial instruments but does not anticipate non-performance by these counterparties. To reduce counterparty credit exposure, the Company deals only with large credit-worthy financial institutions, and limits credit exposure to each.

Fair Value

The carrying value of long-term indebtedness (see note 5) that bears interest at fixed rates is based on its quoted market price or on discounted future cash flows using rates currently available for debt of similar terms and maturities if the quoted market price was not available. The carrying value of other financial instruments, cash and short-term investments, accounts receivable, bank indebtedness and accounts payable and accrued liabilities, approximates fair value due to their short-term maturities. The fair value of derivative financial instruments, foreign exchange contracts and swaps reflects the estimated amounts that the Company would receive or pay to settle the contracts at the reporting date.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars, except per share amounts)
December 31, 1998, 1997 and 1996

1. ACQUISITIONS

The following are the acquisitions during the period. These acquisitions were accounted for by the purchase method and consolidated from the respective effective date of acquisition.

1996 Acquisitions:

- Effective January 1, 1996, the Company acquired an additional 11% of Ambrose, Carr, Linton, Carroll Inc.
- Effective May 10, 1996, the Company acquired 100% of The House of Questa Limited.
- Effective July 1, 1996, the Company acquired 100% of Davis + Henderson Ltd.
- Effective August 30, 1996, the Company acquired certain Australian assets of Rexam Security Products.

1997 Acquisitions:

- Effective March 1, 1997, the Company acquired 100% of News Canada Inc.
- Effective May 1, 1997, the Company acquired 100% of Image Checks Inc.
- Effective June 1, 1997, the Company acquired FRB Communications and amalgamated it with LBJ Advertising Ltd. to form LBJ•FRB Communications Inc. The Company owns 50.1% of LBJ•FRB Communications Inc.
- Effective October 15, 1997, the Company acquired 100% of Bicybec Ltée.

1998 Acquisitions:

- Effective January 1, 1998, the Company acquired 100% of the cheque business of Artistic Greetings Incorporated and 60% of Integrated Healthcare Communications Inc.
- Effective April 1, 1998, the Company acquired 80% of Margeotes|Fertitta+Partners LLC.
- Effective May 28, 1998, the Company acquired 65% of Qualtech Processing Inc.
- Effective July 1, 1998, the Company acquired all the assets of Custom Cheques of Canada, BA Custom Cards and Custom Direct Inc.
- Effective September 25, 1998, the Company acquired 80% of CyberSight LLC.
- Effective October 1, 1998, the Company acquired certain assets of the Styles Checks Company.
- Effective October 15, 1998, the Company acquired 81.5% of Source Marketing LLC.

The assets acquired and consideration given are as follows:

December 31	1998	1997	1996
Net assets acquired, at fair value			
Assets, net of liabilities	**$ 32,647**	$ 4,662	$ 18,657
Consideration			
Cash and promissory notes	**166,408**	37,847	66,871
Share capital – Class A shares	**16,260**	—	180
Integration and other acquisition costs	**68,059**	805	13,461
	250,727	38,652	80,512
Goodwill	**$218,080**	$ 33,990	$ 61,855

2. ACCOUNTS RECEIVABLE

December 31	1998	1997	1996
Trade receivables	**$ 60,692**	$ 51,028	$ 33,551
Notes receivable	**15,833**	7,237	1,147
Unbilled work in progress	**4,610**	4,247	2,069
	$ 81,135	$ 62,512	$ 36,767

Notes receivable include amounts owing from a company controlled by an officer of the Company and from officers and directors of the Company and its subsidiaries. The notes are non-interest bearing and are due on demand.

Notes receivable include $4,774 owing from employees, officers and directors on account of share purchase loans. The notes are non-interest bearing, due on demand, and secured by shares with a market value of $6,217 as at December 31, 1998.

3. CAPITAL AND OTHER ASSETS

December 31	1998		1997		1996	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization	Cost	Accumulated Amortization
(a) Capital Assets						
Land	**$ 1,870**	**$ —**	$ 1,728	$ —	$ 1,666	$ —
Buildings	**11,788**	**2,152**	8,709	570	8,653	429
Computer, furniture and fixtures	**59,285**	**32,543**	22,317	14,150	12,620	7,075
Machinery and equipment	**127,380**	**47,093**	83,139	24,109	75,802	23,922
Leasehold improvements	**18,354**	**7,651**	8,266	2,740	6,044	1,745
	218,677	**89,439**	124,159	41,569	104,785	33,171
(b) Other Assets						
Deferred charges	**19,473**	**6,220**	15,902	3,483	12,315	3,366
Deferred finance costs	**20,595**	**3,103**	13,273	2,670	12,314	1,447
Deferred foreign exchange	**24,085**	**1,760**	11,050	463	3,562	—
Deferred swap settlement income	**(18,900)**	**(2,015)**	—	—	—	—
Deferred income taxes	**1,774**	**—**	2,264	—	1,061	—
	47,027	**9,068**	42,489	6,616	29,252	4,813
	265,704	**98,507**	166,648	48,185	134,037	37,984
Cost less accumulated amortization		**$167,197**		$ 118,463		$ 96,053

Included in capital assets are assets under capital lease with a cost of $17,443 (1997 – $12,788, 1996 – $13,346) and accumulated amortization of $3,590 (1997 – $2,303, 1996 – $1,868).

4. GOODWILL

December 31	1998	1997	1996
Cost	**$397,976**	$ 179,896	$ 145,906
Accumulated amortization	**19,618**	11,448	7,139
	$378,358	$ 168,448	$ 138,767

5. LONG-TERM INDEBTEDNESS

December 31	1998	1997	1996
10.5% unsecured senior subordinated debentures, face value US$200,000 (1997 and 1996 – US$125,000), due December 1, 2006, interest payable semi-annually	**$311,873**	$ 178,813	$ 171,325
7% convertible debentures, face value $50,000, due January 8, 2007; present value of interest payable until January 8, 2002	**9,185**	11,855	—
6% convertible subordinated notes, due March 2002	**3,887**	3,656	3,433
6.75% mortgage payable, due January 2002	**2,782**	3,033	3,250
Notes payable	**1,045**	2,210	3,649
Credit facility (US$33,500)	**51,365**	—	—
	380,137	199,567	181,657
Obligations under capital leases, interest at 7.37% to 11.67%	**14,293**	10,579	12,246
	394,430	210,146	193,903
Less: Current portion	**5,719**	4,512	2,996
	$388,711	$ 205,634	$ 190,907

The credit facility provides for an aggregate maximum borrowing of up to US$150,000 bearing interest at varying rates, depending on the nature of the loan, the Company's financial ratios and variable borrowing rates in both Canada and the United States. The credit facility and bank indebtedness are secured by a general security agreement, a pledge of shares of subsidiaries and an assignment of intercompany debt. The Credit Facility terminates August 2003.

The credit facility converts into a US$75,000 revolving facility in August 1999, with up to US$75,000 converting into a four year term loan in August 1999. The term loan is repayable at a minimum of US$6,250 per quarter commencing after August 2000.

The Company has entered into a cross currency swap agreement which has converted the obligations (principal and interest) on US$125,000 of the unsecured senior subordinated debentures from US$ to CDN$ and carries a revised coupon of 11.1% payable interest only semi-annually in Canadian dollars. The cross currency swap agreement terminates in December 2006.

The Company has entered into an interest rate swap agreement which has converted the interest obligation on US$50,000 of the unsecured senior subordinated debentures from 10.5% to a variable interest rate. At December 31, the variable rate of interest was approximately 9.0%. The interest rate swap terminates in December 2006, unless the Bank exercises its option to cancel on December 1, 1999 or the Bank or the Company exercise their option to cancel on December 1, 2003.

The mortgage and capital leases are secured by specific equipment, land and building.

In accordance with the Company's accounting policy on financial instruments, the net proceeds of $47,350 of the 7% convertible debentures with face value $50,000 were allocated $14,350 to long-term indebtedness and $33,000 to other paid in capital in shareholders' equity. Additional amounts are capitalized annually to the equity portion of the notes in order that the equity portion of the notes will equal the face value at maturity. The 7% convertible debentures are convertible at the option of the holder into Class A shares at a rate of 49.261 Class A shares per $1 of debenture. The 7% convertible debentures will be redeemable at the discretion of the Company from December 31, 1999 to December 30, 2001 provided the trading price of the Class A shares is at least $25.375. After December 30, 2001 the 7% convertible debentures are freely redeemable by the Company. The Company may, at its option, satisfy the obligation to repay the principal amount of the debentures on redemption or at maturity in freely tradeable Class A shares.

The 6% convertible subordinated notes have been allocated $3,057 to long-term indebtedness and $1,943 to other paid in capital in shareholders' equity. Additional interest is capitalized annually to the indebtedness portion of the notes in order that the indebtedness portion will equal the face value at maturity. The 6% convertible subordinated notes are convertible at any time into Class A shares of the Company at the rate of 66.667 Class A shares for each $1 of notes. The notes are secured by a floating charge on all the assets of the Company and rank *pari passu* with the unsecured senior subordinated debentures and subordinate to all other bank and long-term indebtedness. Interest is paid quarterly.

The approximate principal portion of long-term indebtedness repayable in each of the five years subsequent to December 31, 1998 is as follows:

1999	—	$ 5,719
2000	—	10,150
2001	—	5,478
2002	—	2,268
2003	—	56,397
Thereafter	—	314,418

Total interest on long-term indebtedness was $29,096 (1997 – $13,364, 1996 – $7,938). Of this amount approximately $78 (1997 – $364, 1996 – $436) has been capitalized.

The Company's estimate of the fair value of its long-term indebtedness is as follows:

December 31	1998	1997	1996
Maturing within five years	**$ 82,000**	$ 31,000	$ 23,000
Maturing after five years	**321,000**	190,000	172,000
	$403,000	$ 221,000	$ 195,000

The Company estimates that as at December 31, 1998 the fair value of its swap agreements approximates their carrying value.

6. SHARE CAPITAL

The authorized share capital of the Company is as follows:

An unlimited number of Class A shares (subordinate voting shares) carrying one vote each, entitled to dividends equal to or greater than Class B shares, convertible at the option of the holder into one Class B share for each Class A share after the occurrence of certain events related to an offer to purchase all Class B shares.

An unlimited number of Class B shares carrying 20 votes each, convertible at any time at the option of the holder into one Class A share for each Class B share.

An unlimited number of non-voting preference shares issuable in series.

Changes to the Company's issued and outstanding share capital are as follows:

	Shares	Amount
Class A		
Balance, December 31, 1995	9,919,252	$ 61,258
Shares issued by prospectus	1,916,667	25,875
Shares issued on acquisitions	17,967	180
Shares acquired and cancelled pursuant to a normal course issuer bid	(24,500)	(274)
Share options exercised	72,100	337
Share issue costs, net of income tax recovery of $1,200	—	(1,359)
Balance, December 31, 1996	11,901,486	86,017

	Shares	Amount
Balance, December 31, 1996 – carry forward	11,901,486	$ 86,017
Shares acquired and cancelled pursuant to a normal course issuer bid	(331,700)	(3,287)
Share options exercised	216,600	778
Conversion of Class B shares	37	—
Income tax recovery of shares issue costs	—	470
Balance, December 31, 1997	11,786,423	83,978
Shares acquired and cancelled pursuant to a normal course issuer bid	(25,200)	(288)
Shares issued by prospectus	3,000,000	42,000
Share options and warrants exercised	558,779	4,807
Shares issued on purchase of assets of: Custom Cheques of Canada, BA Custom Cards, and Custom Direct Inc.	1,250,000	15,000
Shares issued on purchase of Source Marketing LLC	120,280	1,260
Share issue costs, net of income tax recovery of $1,095	—	(1,373)
Conversion of Class B shares	166	—
Balance, December 31, 1998	16,690,448	$ 145,384
Class B		
Balance, December 31, 1995 and December 31, 1996	451,766	$ 202
Conversion to Class A shares	(37)	—
Balance, December 31, 1997	451,729	202
Conversion to Class A shares	(166)	—
Balance, December 31, 1998	451,563	$ 202
Total Share Capital		
1998	**17,142,011**	**$ 145,586**
1997	12,238,152	$ 84,180
1996	12,353,252	$ 86,219

As at December 31, 1998, the Company had granted options under the terms of its employee share option incentive plan to purchase 2,206,229 Class A shares at prices ranging from $7.75 to $20.40 per share. These options expire between 1999 and 2003.

The Company has reserved a total of 5,219,283 Class A shares in order to meet its obligation under various conversion rights, warrants and employee share options.

7. OTHER PAID IN CAPITAL

December 31	1998	1997	1996
Balance, beginning of year	**$ 37,802**	$ 1,943	$ 1,943
Equity component of 7% convertible debentures	**—**	33,000	—
Allocation from retained earnings	**3,107**	2,859	—
	$ 40,909	$ 37,802	$ 1,943

8. CUMULATIVE TRANSLATION ADJUSTMENT

This adjustment represents the net unrealized foreign currency translation gain (loss) on the Company's net investment in self-sustaining foreign operations in the United States, United Kingdom and Australia.

Changes during the year are as follows:

December 31	1998	1997	1996
Cumulative unrealized gain, beginning of year	$ —	$ —	$ —
Unrealized gain for the year on translation of net assets	4,086	—	—
Cumulative unrealized gain, end of year	$ 4,086	$ —	$ —

9. MINORITY INTERESTS

These amounts represent remuneration paid to shareholder-managers of subsidiary companies pursuant to their respective shareholder agreements and adjustments to the minority interest position.

10. INCOME TAXES

The Company's provision for income taxes is comprised as follows:

December 31	1998	1997	1996
Current	$ 4,227	$ 7,041	$ 3,331
Deferred	5,256	(1,218)	462
Recovery of taxes due to utilization of losses and unrecorded deferred tax debits of prior years	—	(1,870)	(951)
	$ 9,483	$ 3,953	$ 2,842

Reconciliation to statutory rates is as follows:

December 31	1998	1997	1996
Provision for income taxes based on combined basic Canadian federal and provincial tax rate of 44.3%	$ 10,451	$ 5,198	$ 3,355
Increase (decrease) in taxes resulting from:			
Permanent differences	(705)	1,392	911
Recovery of taxes due to realization of losses and unrecorded deferred tax debits of prior years	(263)	(2,637)	(1,424)
Total provision	$ 9,483	$ 3,953	$ 2,842

As at December 31, 1998, the consolidated group had approximately $50,800 of non-capital losses which may be carried forward and utilized to reduce future years' taxable income. The right to claim these losses expires as follows:

1999	$ 750
2000	4,600
2001	1,100
2002	1,800
2003	13,650
2004	9,400
2005	19,500

As at December 31, 1998 the consolidated group had recorded items in the accounts of approximately $16,500 which had not been claimed for income tax purposes. The potential income tax benefits have not been recorded in these consolidated financial statements.

11. INCOME (LOSS) FROM DISCONTINUED OPERATIONS

In December 1997, the Company adopted a plan to divest its Regal Greetings & Gifts and Primes de Luxe ("Regal") operations. The divestiture process is anticipated to take several months to complete. Accordingly, the results of Regal are reported as discontinued operations and previously reported financial statements have been reclassified. Interest has been allocated to discontinued operations.

For the years ended December 31	1998	1997	1996
Sales	**$ 67,934**	$ 70,794	$ 74,922
Income (loss) from operations	**$ —**	$ (23,618)	$ 2,308
Provision for losses to date of disposal	**—**	(5,000)	—
Net income (loss) from discontinued operations	**$ —**	$ (28,618)	$ 2,308

As at December 31, 1998 the carrying values of Regal's net assets are as follows:

Net working capital	$ 12,500
Capital and other assets	8,200
Goodwill	46,400
	$ 67,100

12. EARNINGS PER SHARE

Basic earnings per share has been calculated on a weighted average basis of Class A shares and Class B shares outstanding during the year and after giving effect to the net allocation to other paid in capital related to the convertible debentures.

The calculation of fully diluted earnings per share is based upon the common shares outstanding during the year as above, adjusted by the total of the additional common shares that would have been issued assuming exercise of all share options and warrants and conversion of all other dilutive instruments.

13. PENSION COSTS AND OBLIGATIONS

The estimated market value of assets in the defined benefit component of the pension plans was $17,788 at December 31, 1998 (1997 – $10,259). These assets are available to meet the estimated present value of accrued pension obligations of $16,130 at December 31, 1998 (1997 – $10,037).

14. COMMITMENTS

The Company has leased real estate and equipment at the following approximate annual base rental:

1999	$ 12,626
2000	10,056
2001	8,683
2002	7,938
2003	4,742
Thereafter	13,783

The Company, under agreements with respect to the terms of shareholder agreements, may be required to acquire part or all of minority shareholdings at an amount based on the net income of the respective subsidiary companies.

15. CONTINGENT LIABILITIES

As at December 31, 1998 there are claims against the Company in varying amounts. It is not possible to determine the amounts that may ultimately be assessed against the Company with respect to these claims; however, management believes that any such amounts would not have a material impact on the business or financial position of the Company.

16. RELATED PARTY TRANSACTIONS

The Company paid fees totalling $1,000 (1997 – $1,000, 1996 – $1,000) to a company controlled by an officer of the Company in connection with capital transactions. In addition the Company has a non-interest bearing note receivable of $3,000 (1997 – $3,000, 1996 – $nil) from the same company.

17. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000.

If the Year 2000 Issue is not addressed by the Company and its major customers, suppliers and other third party business associates, the impact on the Company's operations and financial reporting may range from minor errors to significant systems failure which could affect the Company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

18. SEGMENTED INFORMATION

In 1998 the Company adopted the new accounting recommendation for segmented disclosures. Based on the Company's internal management structure, the Company's continuing operations are in primarily two business segments – Secure Transaction Products and Services and Communications and Marketing Services. Secure Transaction Products and Services operations provide security-sensitive transaction products and services in four areas: personalized transaction products, stamps, secure ticketing products, and business and technology services. The Communications and Marketing Services division offers services in niche markets within the following segments of marketing communications: advertising and promotion, public relations and corporate communications, and branding and consulting. The significant accounting policies of these segments are the same as those described in the summary of significant accounting policies.

For the year ended December 31, 1998	Secure Transaction Products & Services	Communications & Marketing Services	Corporate & Other	Total
Earnings				
Sales	**$361,200**	**$101,839**	**$ 13,688**	**$476,727**
Operating income	**$ 70,489**	**$ 14,074**	**$ (5,919)**	**$ 78,644**
Amortization	**21,636**	**2,650**	**1,762**	**26,048**
Minority interests	**1,383**	**4,604**	**—**	**5,987**
Earnings, before interest and income taxes	**$ 47,470**	**$ 6,820**	**$ (7,681)**	**46,609**
Interest				**23,018**
Earnings, before income taxes				**23,591**
Income taxes				**9,483**
Net earnings from continuing operations				**$ 14,108**
Assets				
Total assets	**$514,955**	**$ 99,873**	**$125,185**	**$740,013**
Expenditures on capital assets	**$ 30,658**	**$ 1,799**	**$ 5,627**	**$ 38,084**

For the year ended December 31, 1997	Secure Transaction Products & Services	Communications & Marketing Services	Corporate & Other	Total
Earnings				
Sales	$ 195,318	$ 66,763	$ 17,939	$ 280,020
Operating income	$ 31,012	$ 8,865	$ (4,231)	$ 35,646
Amortization	12,305	1,533	946	14,784
Minority interests	384	2,486	—	2,870
Earnings, before interest and income taxes	$ 18,323	$ 4,846	$ (5,177)	17,992
Interest				6,258
Earnings, before income taxes				11,734
Income taxes				3,953
Net earnings from continuing operations				$ 7,781
Assets				
Total assets	$ 239,703	$ 52,243	$ 125,563	$ 417,509
Expenditures on capital assets	$ 16,429	$ 1,130	$ 2,168	$ 19,727

For the year ended December 31, 1996	Secure Transaction Products & Services	Communications & Marketing Services	Corporate & Other	Total
Earnings				
Sales	$ 93,015	$ 46,067	$ 19,129	$ 158,211
Operating income	$ 17,008	$ 5,621	$ (441)	$ 22,188
Amortization	5,966	1,098	731	7,795
Minority interests	—	1,258	—	1,258
Gain on sale of capital assets	(579)	(36)	—	(615)
Earnings, before interest and income taxes	$ 11,621	$ 3,301	$ (1,172)	13,750
Interest				6,177
Earnings, before income taxes				7,573
Income taxes				2,842
Net earnings from continuing operations				$ 4,731
Assets				
Total assets	$ 169,447	$ 35,709	$ 156,779	$ 361,935
Expenditures on capital assets	$ 7,626	$ 762	$ 5,965	$ 14,353

Geographic Information

Sales	**1998**	1997	1996
Canada	**$280,268**	$ 208,159	$ 135,120
United States	**160,174**	49,370	16,137
Other countries	**36,285**	22,491	6,954
Total	**$476,727**	$ 280,020	$ 158,211

Capital Assets and Goodwill	**1998**	1997	1996
Canada	**$326,239**	$ 228,348	$ 188,608
United States	**170,262**	34,314	17,225
Other countries	**49,054**	31,486	30,134
Total	**$545,555**	$ 294,148	$ 235,967

Nine-Year Financial Summary

(dollars and shares in thousands, except per share amounts)

	1998	1997	1996	1995	1994	1993	1992	1991	1990
Operations									
Sales	$ 476,727	280,020	158,211	97,796	49,605	32,061	27,296	21,188	23,782
Cost of sales	242,608	156,823	95,628	65,421	34,789	22,495	19,617	15,631	17,155
Gross profit	234,119	123,197	62,583	32,375	14,816	9,566	7,679	5,557	6,627
Operating expenses	155,475	87,551	40,395	22,524	9,755	5,910	4,571	4,484	4,612
Operating income	78,644	35,646	22,188	9,851	5,061	3,656	3,108	1,073	2,015
Amortization expense	26,048	14,784	7,795	3,146	1,461	895	690	739	819
Interest expense	23,018	6,258	6,177	2,138	485	626	879	1,057	1,182
Minority interests	5,987	2,870	1,258	828	850	299	479	531	789
Loss (gain) on sale of capital assets	—	—	(615)	—	3	(148)	(46)	—	7
Income (loss) before income taxes	23,591	11,734	7,573	3,739	2,262	1,984	1,106	(1,254)	(782)
Income taxes	9,483	3,953	2,842	1,542	970	113	27	(161)	106
Net income (loss) before undernoted item	14,108	7,781	4,731	2,197	1,292	1,871	1,079	(1,093)	(888)
Non-recurring charges/discontinued operations	—	28,618	(2,308)	(613)	(3,016)	—	—	467	5,302
Net income (loss)	$ 14,108	(20,837)	7,039	2,810	4,308	1,871	1,079	(1,560)	(6,190)
Earnings per share									
(continuing operations)									
Basic	$ 0.93	0.50	0.41	0.21	0.14	0.25	0.23	(0.42)	(0.39)
Fully diluted	0.88	0.49	0.40	0.21	0.14	0.25	0.22	(0.42)	(0.39)
Reported									
Basic	$ 0.93	(1.82)	0.61	0.27	0.46	0.25	0.23	(0.60)	(2.72)
Fully diluted	0.88	(1.82)	0.58	0.27	0.45	0.25	0.22	(0.60)	(2.72)
Cash flow (continuing operations)	$ 45,072	22,432	12,616	3,973	2,686	1,552	2,011	(303)	(25)
Cash flow per share									
Basic	3.25	1.69	1.09	0.39	0.29	0.21	0.42	(0.12)	(0.01)
Fully diluted	2.64	1.41	0.99	0.37	0.29	0.21	0.40	(0.12)	(0.01)
Financial position									
Net working capital	$ 44,811	37,930	63,040	8,194	7,741	9,938	539	166	1,177
Investments	—	—	—	—	683	1,740	—	—	2
Capital and other assets	167,197	118,463	96,053	43,581	17,586	3,868	2,161	1,866	2,297
Goodwill	378,358	168,448	138,767	80,092	67,687	14,707	10,739	6,522	6,698
Total assets	740,013	417,509	361,935	184,128	124,049	40,076	23,311	13,815	15,527
Long-term indebtedness	388,711	205,634	190,907	56,748	26,645	5,844	5,948	6,477	8,518
Total indebtedness	397,080	222,223	194,579	80,734	32,178	8,080	8,602	8,794	10,442
Shareholders' equity	198,144	117,168	105,776	73,978	64,301	24,165	7,172	1,796	1,152
Other data									
Operating income as a % of sales	% 16.5	12.7	14.0	10.1	10.2	11.4	11.4	5.1	8.5
Income from continuing operations as a % of sales	3.0	2.8	3.0	2.2	2.6	5.8	4.0	(5.2)	(3.7)
Book value per share	$ 11.56	9.57	8.56	7.13	6.42	3.07	1.25	0.58	0.49
Current ratio	1.30	1.41	1.98	1.16	1.26	2.01	1.05	1.03	1.22
Long-term indebtedness to total capitalization	% 65.3	60.6	63.6	36.7	27.6	18.1	37.7	61.2	73.5
Total indebtedness to total capitalization	66.7	65.5	64.8	52.2	33.4	25.1	54.5	83.0	90.1
Total indebtedness to shareholders' equity	2.00	1.90	1.84	1.09	0.50	0.33	1.20	4.90	9.06
Class A and B shares outstanding at year end	17,142	12,238	12,353	10,371	10,019	7,883	5,742	3,085	2,342
Employees at year end	3,930	2,920	2,600	1,491	1,150	277	160	111	102

Three-Year Summary —
Quarterly Consolidated Operating Results from Continuing Operations

	1st Quarter			2nd Quarter		
(Unaudited)	**1998**	1997	1996	**1998**	1997	1996
Sales	**$ 87,067**	68,156	32,801	**131,701**	72,006	31,225
Net income						
Net income	**$ 2,797**	2,182	1,438	**3,479**	1,921	760
Net income per share						
Basic	**$ 0.19**	0.14	0.14	**0.25**	0.13	0.06
Fully diluted	**$ 0.18**	0.14	0.14	**0.22**	0.12	0.06
Cash flow						
Cash flow from operations	**$ 7,177**	5,492	2,865	**9,679**	5,665	1,452
Cash flow per share						
Basic	**$ 0.55**	0.42	0.28	**0.74**	0.44	0.12
Fully diluted	**$ 0.44**	0.35	0.25	**0.70**	0.36	0.12

	3rd Quarter			4th Quarter			Annual total		
(Unaudited)	**1998**	1997	1996	**1998**	1997	1996	**1998**	1997	1996
Sales	**$125,087**	62,062	44,962	**132,872**	77,796	49,223	**476,727**	280,020	158,211
Net income									
Net income	**$ 3,430**	1,469	803	**4,402**	2,209	1,730	**14,108**	7,781	4,731
Net income per share									
Basic	**$ 0.23**	0.08	0.06	**0.26**	0.15	0.15	**0.93**	0.50	0.41
Fully diluted	**$ 0.22**	0.08	0.06	**0.26**	0.15	0.14	**0.88**	0.49	0.40
Cash flow									
Cash flow from operations	**$ 13,755**	4,615	3,706	**14,461**	6,660	4,593	**45,072**	22,432	12,616
Cash flow per share									
Basic	**$ 1.06**	0.36	0.31	**0.90**	0.47	0.38	**3.25**	1.69	1.09
Fully diluted	**$ 0.89**	0.31	0.29	**0.61**	0.39	0.33	**2.64**	1.41	0.99

Class A Share Price

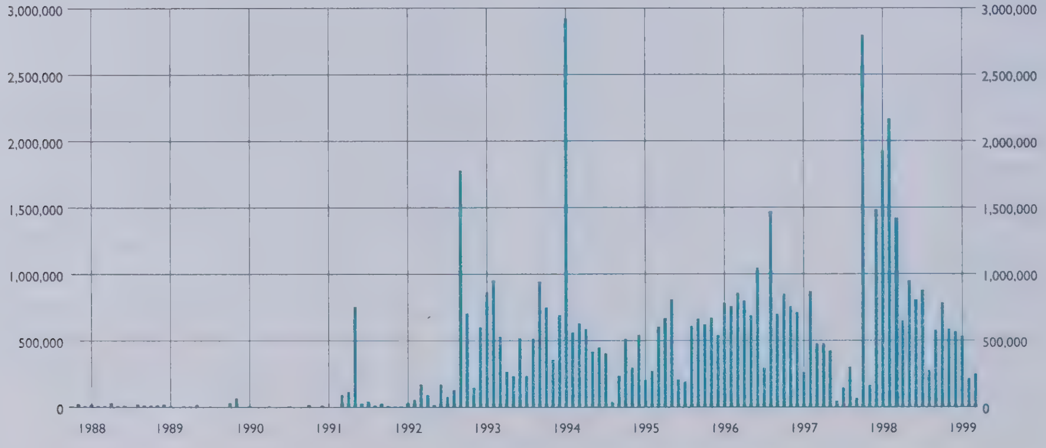
The Class A shares of MDC Communications Corporation are listed on the Toronto Stock Exchange under the symbol MDZ.A, and on the NASDAQ National Market under the symbol MDCA. From April 1995 to September 1998 the Company's shares traded on the American Stock Exchange under the symbol MDQ. Quarterly market price data, adjusted for the one for six consolidation completed in May 1996, from 1992 to the first quarter of 1998 were as shown below:

	Toronto Stock Exchange			NASDAQ National Market/AMEX		
	Market price per share		Trading volume	Market price per share		Trading volume
Quarter ending	High	Low	# of shares	High	Low	# of shares
1999						
March 31	**$ 16.95**	**$ 13.00**	**1,015,297**	**$ 10.63**	**$ 8.78**	**1,327,105**
1998						
December 31	**$ 17.05**	**$ 10.00**	**1,957,257**	**$ 11.00**	**$ 6.56**	**2,028,374**
September 30	**$ 15.50**	**$ 9.75**	**1,753,154**	**$ 10.31**	**$ 6.25**	**1,399,700**
June 30	**$ 16.95**	**$ 13.25**	**2,420,220**	**$ 11.31**	**$ 9.38**	**1,797,100**
March 31	**$ 13.75**	**$ 8.50**	**5,525,864**	**$ 9.75**	**$ 6.25**	**1,863,900**
Total 1998	**$ 17.05**	**$ 8.50**	**11,656,495**	**$ 11.31**	**$ 6.25**	**5,060,700**
1997						
December 31	$ 9.80	$ 7.60	4,452,805	$ 6.75	$ 5.25	197,700
September 30	$ 10.50	$ 8.60	521,483	$ 7.63	$ 6.38	142,700
June 30	$ 12.00	$ 10.00	954,972	$ 8.63	$ 7.13	85,900
March 31	$ 14.00	$ 11.50	1,619,243	$ 10.25	$ 8.63	181,200
Total 1997	$ 14.00	$ 7.60	7,548,503	$ 12.13	$ 6.38	607,500
1996						
December 31	$ 16.50	$ 12.05	2,330,275	$ 12.13	$ 9.13	493,900
September 30	$ 14.50	$ 9.90	2,474,651	$ 10.75	$ 7.00	546,600
June 30	$ 13.80	$ 9.90	2,546,773	$ 10.13	$ 7.19	416,183
March 31	$ 12.30	$ 9.00	2,410,339	$ 9.75	$ 6.38	691,733
Total 1996	$ 16.50	$ 9.00	9,762,038	$ 12.13	$ 6.38	2,148,416
1995						
December 31	$ 13.20	$ 6.60	2,377,965	$ 9.38	$ 4.88	174,983
August 31	$ 16.80	$ 12.00	1,018,181	$ 12.38	$ 9.38	63,033
May 31	$ 17.40	$ 12.90	2,091,864	$ 12.75	$ 9.75	114,533
February 28	$ 15.90	$ 12.00	1,027,809			
Total 1995	$ 17.40	$ 6.60	6,515,819	$ 12.75	$ 4.88	352,550
1994						
November 30	$ 17.10	$ 14.10	1,056,306			
August 31	$ 18.00	$ 12.00	900,445			
May 31	$ 24.60	$ 15.60	1,641,711			
February 28	$ 23.40	$ 9.90	4,185,750			
Total 1994	$ 24.60	$ 9.90	7,784,212			
1993						
November 30	$ 10.50	$ 6.90	2,056,852			
August 31	$ 8.58	$ 5.70	1,277,667			
May 31	$ 10.38	$ 6.60	1,040,305			
February 28	$ 11.40	$ 5.46	2,424,275			
Total 1993	$ 11.40	$ 5.46	6,799,099			
1992						
November 30	$ 6.96	$ 3.12	2,639,328			
August 31	$ 3.06	$ 2.22	384,833			
May 31	$ 3.42	$ 2.40	187,150			
February 28	$ 3.60	$ 1.50	98,767			
Total 1992	$ 6.96	$ 1.50	3,310,078			

MDC Class A Subordinate Voting Shares
Toronto Stock Exchange Trading History: 1987–1999

Share Price in CDN$

Volume



Director Profiles

Miles S. Nadal is Chairman of the Board, and President and C.E.O. of MDC Communications Corporation. Under Mr. Nadal's leadership, the company has grown from its start-up in 1980 to a diversified international corporation with revenues of $477 million. Mr. Nadal serves on the boards of several community and charitable organizations, including Junior Achievement of Canada, the Schulich School of Business, the Canadian Weizmann Institute of Science, Mount Sinai Hospital, and the Baycrest Hospital Board of Governors.

Ronald D. Besse, a Director since 1988, is Chairman, President and C.E.O. of Canada Publishing Corporation, and Chairman and President of RDB Capital Corporation. Mr. Besse serves on the boards of several Canadian and international companies, including Rogers Communications Inc., and Luxembourg Holding Group. He is also Chairman of the Board of Directors for C.I. Fund Management Inc.

Thomas N. Davidson, a Director since 1988, is an industrialist and venture capitalist. He is Chairman of the Quarry Hill Group of companies, and is a director of several Canadian and international companies including Lucas Variety, Derlan Industries Limited, and Nations Bank of South Florida. Mr. Davidson resides in Monroe County, Florida.

Lloyd S.D. Fogler, QC, a Director since 1986, is a senior partner in the law firm of Fogler, Rubinoff, Barristers & Solicitors. Mr. Fogler serves on the boards of several public companies, including Brampton Brick Ltd., First Mercantile Currency Fund, First Marathon Inc., and Goldlist Properties Inc. Mr. Fogler is Chairman Emeritus of Mount Sinai Hospital; Chairman of the Mount Sinai Hospital Foundation of Toronto; and a director of the Canadian Opera Company.

Anthony M. Frank, a director since 1998, is the co-founder, General Partner and Chairman of Belvedere Capital Partners, an investment group headquartered in San Francisco. Mr. Frank has extensive experience in the banking industry and has served in numerous senior executive roles including President and Chairman of Citizens Savings and Loan of San Francisco (now First Nationwide Bank). Mr. Frank also served as the 69th Postmaster General of the United States and was the Chief Executive Officer of the U.S. Postal Service for four years.

Guy P. French, a Director since 1989, has held several senior executive positions in domestic and international consumer goods and industrial products corporations. He is a founding partner of the Toronto-based executive recruiting firm, corso, mizgala + french, which commenced operations in 1992. Mr. French serves on the boards of several companies, including Working Ventures Canadian Fund Inc., and S.C. Johnson & Son Ltd.

Albert Gnat, QC, a recently appointed Director, is a partner in the law firm of Lang Michener Barristers & Solicitors, and serves on the boards of several Canadian and international organizations. Mr. Gnat specializes in corporate and commercial practice encompassing securities, mergers and acquisitions, and finance transactions, and serves as the senior legal advisor for several major public and private corporations.

Lyle E. Kerr, a Director as of April, 1999, is Executive Vice-President of the Corporation and President and Chief Executive Officer of the Secure Transaction Products and Services division. Prior to joining MDC in April 1999, Mr. Kerr was Executive Vice President of J. D. Irving Ltd. and, concurrently, served as President of Maritime Information Technology Inc., which he founded.

Peter M. Lewis, a Director since 1994, is Executive Vice-President and Chief Financial Officer, MDC Communications Corporation. Prior to joining MDC, Mr. Lewis was a partner at Price Waterhouse, consulting in the field of mergers and acquisitions.

Stephen M. Pustil, a Director since 1992, and Vice-Chairman of the Board, is President of Penwest Development Corporation Ltd., a real estate development and construction firm that he established in 1972. Mr. Pustil, a chartered accountant, also serves as Vice-Chairman on the Board of Mount Sinai Hospital.

François R. Roy joined the Board of Directors in 1998. Mr. Roy is Executive Vice President and Chief Financial Officer of Quebecor Inc., having previously served as Executive Vice President and Chief Financial Officer of Avenor Inc., a leading forest products company. Mr. Roy also has had extensive experience in the financial services industry, having served in various executive positions in Toronto, New York City, Los Angeles and Montreal.

Graham W. Savage, a Director since 1996, is a principal in Savage Walker Capital Inc., a merchant bank. He was for many years an executive at Rogers Communications Inc., serving from 1989 to 1996 as C.F.O. Mr. Savage serves on the boards of several companies, including Canadian Tire Corporation Limited, Lions Gate Entertainment Corp., and Vitran Corporation Inc.

Committees of the Board

The Executive Committee

Chairman
Miles S. Nadal

Members
Lloyd S.D. Fogler, QC
Stephen M. Pustil

Responsibilities
During intervals between full meetings of the Board of Directors, the Executive Committee may undertake the business of the Board — excluding responsibilities specified in subsection 127(3) of the Business Corporations Act, 1982 (Ontario) — in all areas where specific direction has not been given by the Board. All expenditures authorized by the Executive Committee are reported to the Board of Directors at its next meeting. The Executive Committee maintains minutes of its meetings which are submitted to the Board for approval.

Specific responsibilities include

- To study and make recommendations to the Board on new policies concerning the orientation, expansion, and development of the Corporation.
- To study and make recommendations on annual and long-term plans for approval by the Board.
- To recommend to the Board annual budget projections.
- To study and recommend to the Board any capital expenditure plans.
- To review operating results for each quarter and the year-to-date.
- To deal with all matters, including guarantees, commitments, purchases of shares or assets for amounts under $500,000.
- To give prior authorization on capital expenditures for amounts of $300,000 or less not included in the annual budget.
- To recommend to the Board all matters concerning a change affecting any of the Corporation's bankers.
- To examine and recommend any proposal involving significant changes in management of the business, major acquisitions, and commitments for investments for reference to the Board.
- Any other responsibilities specifically delegated by the Board.

The Audit Committee

Chairman
Thomas N. Davidson

Members
Lloyd S.D. Fogler, QC
Miles S. Nadal
Stephen M. Pustil
Graham W. Savage

Responsibilities
To review all financial statements, annual and interim, intended for circulation among shareholders and to report upon these to the Board. In addition, the Board of Directors may refer to the Audit Committee on other matters and questions relating to the financial position of the Corporation and its affiliates.

The Corporate Governance Committee

Chairman
Stephen M. Pustil

Members
Ronald D. Besse
Thomas N. Davidson
Graham W. Savage

Responsibilities
The Corporate Governance Committee is composed of four members, all of whom are unrelated directors. The committee is responsible for reviewing and making recommendations to the Board with respect to developments in the area of corporate governance and the practices of the Board. The committee is also responsible for evaluating the performance of the Board as a whole as well as individual Board members and for reporting to the Board with respect to appropriate candidates for nominations to the Board.

The Compensation Committee

Chairman
Stephen M. Pustil

Members
Ronald D. Besse
Thomas N. Davidson

Responsibilities

- To determine the compensation of all senior officers of the Corporation.
- To discuss personnel and human resource matters including recruitment and development, management succession and benefit plans.
- To grant options under the Corporation's Employee Stock Option Incentive Plan.

In addition, the Board may refer to the Committee other matters and questions relating to compensation of management employees of the Company and its affiliates.

Board of Directors

Chairman
Miles S. Nadal

Members
Ronald D. Besse
Thomas N. Davidson
Lloyd S.D. Fogler, QC
Anthony M. Frank
Guy P. French
Albert Gnat, QC
Lyle E. Kerr
Peter M. Lewis
Stephen M. Pustil
François R. Roy
Graham W. Savage

Corporate Officers

CORPORATE

Miles S. Nadal
PRESIDENT & CHIEF EXECUTIVE OFFICER

Peter M. Lewis
EXECUTIVE VICE-PRESIDENT & CHIEF FINANCIAL OFFICER

Walter Campbell
SENIOR VICE-PRESIDENT, FINANCE

Janice R. Wadge
SENIOR VICE-PRESIDENT, BUSINESS DEVELOPMENT

Joseph G. MacInnis
TREASURER & CORPORATE SECRETARY

Ronald J. Sneek
VICE-PRESIDENT, FINANCE & ADMINISTRATION

Maria Pappas
ASSISTANT SECRETARY

COMMUNICATIONS AND MARKETING SERVICES DIVISION (MAXXCOM INC.)

Beverley A. Morden
PRESIDENT, MAXXCOM INC.

G. Fraser Sinclair
SENIOR VICE-PRESIDENT & CHIEF FINANCIAL OFFICER, MAXXCOM INC.

SECURE TRANSACTION PRODUCTS AND SERVICES DIVISION

Lyle E. Kerr
EXECUTIVE VICE-PRESIDENT OF THE CORPORATION, PRESIDENT & CHIEF EXECUTIVE OFFICER, SECURE TRANSACTION PRODUCTS AND SERVICES DIVISION

C. Sanford McFarlane
CHAIRMAN & CHIEF EXECUTIVE OFFICER, DAVIS + HENDERSON

Robert J. Cronin
PRESIDENT & CHIEF OPERATING OFFICER, MDC CHEQUE OPERATIONS

Jon A. Hantho
PRESIDENT & CHIEF OPERATING OFFICER, OPTUS CORPORATION

Gregory J. McKenzie
PRESIDENT & CHIEF OPERATING OFFICER, SECURITY CARD SERVICES GROUP

Graham Searle
PRESIDENT & CHIEF OPERATING OFFICER, SECURITY PRINT PRODUCTS

M. William Kerson
PRESIDENT, MDC STAMP GROUP

Tim Smart
VICE-PRESIDENT, FINANCE, SECURE TRANSACTION PRODUCTS AND SERVICES DIVISION

Corporate Directory

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Sanford McFarlane
President & C.O.O.:
Robert Cronin

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General Manager: Noel Hill

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Fax: 011 44 1932 871 408
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President: Douglas Ditchfield

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Senior Vice President &
General Manager: Mario Daigle

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President: George Fertitta

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Ruth Douglas

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Director: Vincent Lavigne

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President: Michael Fearon

Computer Composition of Canada Inc.

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President & C.E.O.: Joe Bugelli

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President & C.E.O.: Joe Bugelli

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Fax: (905) 670-1127
President & C.E.O.: Richard Gyde

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President & C.E.O.: Richard Gyde

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USA:
Simpson Thacher & Bartlett — New York, New York
Skadden Arps Slate Meagher & Flom — New York, New York

Auditors
BDO Dunwoody LLP

Bankers
Royal Bank of Canada
Canadian Imperial Bank of Commerce
Bank of Nova Scotia
Bank of Montreal
Comerica Bank — Canada
Laurentian Bank of Canada

Transfer Agent
CIBC Mellon Trust Company
CIBC Mellon Trust Company operates a telephone information inquiry line that can be reached by dialing toll-free 1-800-387-0825 or (416) 813-4600.
Correspondence may be addressed to:
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c/o CIBC Mellon Trust Company
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Toronto, Ontario M5G 2M7

Investor Relations
For Investor Relations information please call Walter Campbell, Senior Vice-President, Finance, (416) 960-9000.

Stock Exchange Listing
The Class A Shares of the Company are listed on The Toronto Stock Exchange and on the NASDAQ National Market in the United States.

Toronto Stock Exchange Trading Symbol
MDZ.A

NASDAQ National Market
MDCA

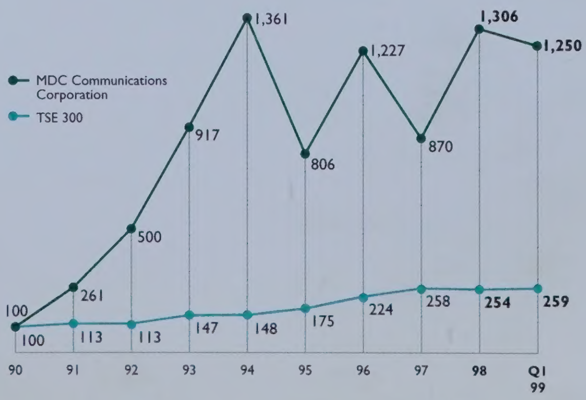
Notice of Shareholders' Meeting
The annual meeting of shareholders will be held Thursday, May 27, 1999 at 4:30 p.m. at the Design Exchange, Toronto Dominion Centre, 234 Bay Street, Trading Floor, Toronto, Ontario.

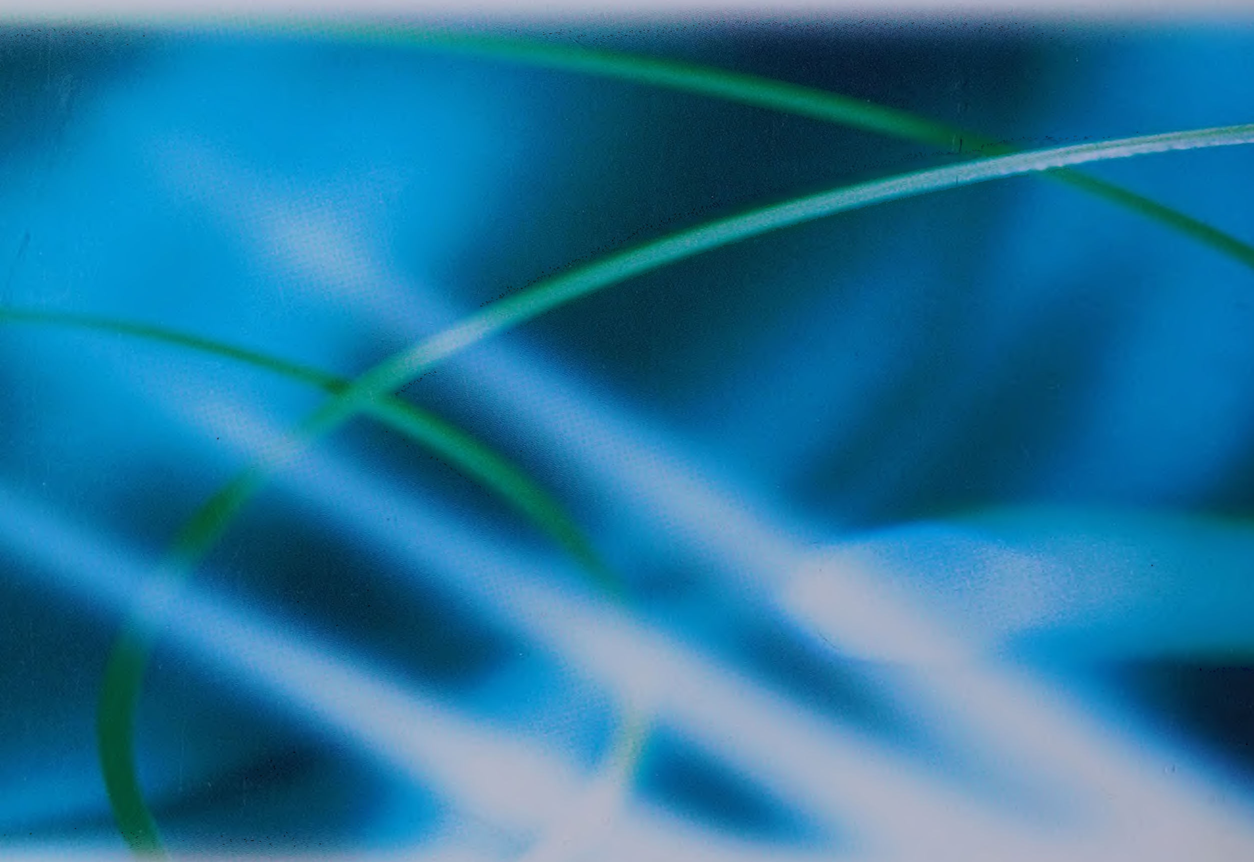
Credits
Design: Bryan Mills & Associates Ltd.*
Photography: Gilbert Studios
Printing: Ashton Potter*

* The above firms are members of MDC Communications Corporation.

CUMULATIVE VALUE OF $100 INVESTMENT

In Canadian dollars, as of each fiscal year end and the first quarter of 1999





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